THE MONETARY PROBLEMS OF INDIA

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TO

THE MEMORY OF MY MOTHER

PREFACE

THE aim of this book is to deal with the monetary problems of India as they have arisen in recent years, particularly during 1926-32. While literature on the subject is in plenty, books on the recent phases of Indian currency and credit are not many. Happily, a mass of new material has been made available by the recent Banking Inquiry in every province in India. The very length of the material (20,000 pages in print), however, makes the task of its analysis rather difficult. Moreover, since the Banking Inquiry itself new changes—in fact, crises—have overtaken the money markets of the world, including India.

Thus the subject of Indian monetary problems is today of unusual importance and difficulty. As in my work on *Indigenous Banking in India*, of the imperfections of my present venture I am fully sensible. My only justification for its presentation is that it is the first attempt to survey the monetary problems of the country in their recent phases made by one who has had unusual opportunities to study them from various angles during the last decade, and that it may form the basis of abler and more elaborate studies.

For the opportunities to which I refer in the preceding paragraph I feel specially indebted to Sir Basil P. Blackett, Sir Purshotamdas Thakurdas, the Honourable Mr. E. A. H. Blunt and Mr. Manohar Lal. To Professor T. E. Gregory, Sir Bhupendra Nath Mitra, Dr. (Mrs.) Vera Anstey, Dr. Gilbert Slater, Mr. R. A. Gray and Mrs. A. Henderson I must express my great obligation for reading the whole or part of the manuscript and for many helpful suggestions.

My thanks are also due to the obliging Librarians of the Punjab University and Public Libraries, Lahore, the London School of Economics Library, the Library of the Office of the High Commissioner for India and of the British Museum Reading Room for the readiness with which they met all my demands, and to Messrs. Sumer Chand Jain and Shadi Lal Bhalla for their assistance in the construction of graphs.

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DIAGRAMS

CHAPTER I

INTRODUCTORY

1. THE CONSTITUENTS AND NATURE OF THE INDIAN MONEY MARKET.

Meaning of 'Money Market.' A study of the monetary problems of India is, as will appear in the following pages, a study of the lack of a true money market in India and the means to establish it. 'Money Market' in this inquiry is not to be confined, as is sometimes the case, to the 'organisation which provides credit of short duration, consisting of the banks which make advances for short periods, the discount houses which buy and sell bills of exchange, the accepting houses or merchant bankers which, with the banks, provide trade with first-class bills by putting their name to them for a small commission.' The term is used in its widest sense so as to embrace the whole financial machinery, including the Stock Exchange and the instruments of company promotion.

Constituents of the Indian Money Market. The constituents of the Indian money market, then, if a money market it may be called, are not only the Imperial Bank of India, the Exchange Banks, the Indian joint-stock banks and the indigenous bankers, including all kinds of private moneylenders and bankers, but also the co-operative societies, the post offices, in so far as they act as credit receiving and remittance providing agencies, the central and local Governments with reference to all their currency and credit operations, and public bodies like municipalities, corporations and trusts in regard to their loans

and investments, and the stock exchanges. Since currency is the basis and instrument of credit, in these pages the term 'Indian money market' covers a wide field, and a critical survey is made of the currency as well as the complete credit organisation of India.

Nature of the Indian Money Market. The money market of India, even if the term is used in the more usual and restricted sense of the organisation dealing in short-term credit, is by no means so highly organised as that of England or America. But in the wider though less common sense, the Indian money market, in so far as it exists, is a strange admixture of all kinds of credit institutions—ancient and modern;[1] private, public and governmental;[2] ordinary and extraordinary, in all stages of development.

2. THE CURRENCY SYSTEM BEFORE 1916.

Having explained the term 'Money Market,' we may now proceed to an analytical examination of its recent development and characteristics in India. The currency, as apart from the credit, problems of India can well be studied in three convenient periods: (1) Before 1916, (2) 1916-25, and (3) since 1926. An elaborate discussion of the currency system before 1916 is not part of the purpose of this book, which deals with the critical period 1926 to 1932, but it will assist the process of clarification briefly to review the first and second periods as precursors of the third.

Beginning of the Silver Standard in India in 1818. Taking the first period, just as the Act of 1816 gave the legislative foundation to the Gold Standard in England,[3] the Act of 1818 marked the beginning of the Silver Standard in India.

At that time India was suffering not only from a political but also from a currency chaos; there were many coins of

[1] There is no Central Bank, but the Imperial Bank of India is the nearest approach to it.

[2] The Government of India plays an unusually large part in the Indian money market. See below, pp. 134 *et seq.*

[3] *The Return to Gold*, by T. E. Gregory, 1925, p. 24.

both silver and gold of different denominations in circulation side by side and the money-changers carried on a profitable trade to the loss of the general public and the harm of trade.[1] The East India Company by the Act of 1818 made the silver rupee of 180 grains 11/12ths fine unlimited legal tender for South India, where previously gold coins had circulated. The reform begun in 1818 was completed in 1835, when by the Gold and Silver Coinage Act[2] the silver rupee was made unlimited legal tender and the gold coins were deprived of their legal tender character in the whole of British India. Bimetallism thus gave place to monometallism and silver was preferred to gold[3]—a system which India enjoyed almost without interruption until 1893.

Framework of the Silver Standard. Like the gold standard in England, the silver standard in India was, to begin with, a purely metallic standard, inasmuch as the standard currency —*i.e.*, the rupee—was made of silver (165 troy grains pure). Unlike England, Indian coins of even smaller denominations —viz., the half-rupee, quarter-rupee, and one-eighth of a rupee—were also of the same metal as the standard coin, and they contained exactly one-half, one-fourth, and one-eighth of the weight of pure silver in a rupee. All the coins were legal tender—the rupee and half-rupee without limit, and others up to one rupee only.

Everyone had the right of converting silver bullion into silver coins by taking it to the open mint, and everyone was at liberty to convert silver coins into silver bullion by the simple process of melting them. The coinage, it is true, was not gratuitous. Seigniorage was charged, but the seigniorage was small (2 per cent.) and, therefore, of little consequence. The value of the Indian rupee depended

[1] My *Indigenous Banking in India*, 1929, pp. 11-13.
[2] Act XVII. of the 17th August, 1835.
[3] As early as 1806, the Court of Directors in their Despatch dated the 25th April, 1806, had declared their adherence to the principle of *one* metallic standard and that silver.

on the value of silver, fluctuations in one corresponding almost exactly with those in the other.

The only coins which were 'token' were of the lowest denominations—viz., double pice ($\frac{1}{32}$ rupee), pice ($\frac{1}{64}$ rupee) and pie ($\frac{1}{192}$ rupee), whose issue was authorised by Section I. of Act XXI. (not XVII.) of 1835, and the half-pice ($\frac{1}{128}$ rupee), introduced by Section II. of Act XI. of 1854. But their *token* character was lost sight of in their insignificant values, and very few people realised that in the monetary system they were rated higher than their metallic value, and that this higher value was maintained by the fact that at that rate there was sufficient demand for them.

In 1861, to the metallic currency was added paper currency (see below, pp. 16 *et seq.*), but in the beginning (for reasons which cannot be explained here) the latter formed but a small proportion of Indian currency. Such notes as circulated were identical in value with silver rupees, for the former were in fact, as in law, convertible into the latter.

Gold Coins and Gresham's Law. So simple a currency system was, however, complicated by the issue of gold coins which, by the way, were the only coins not legal tender, but which, like the unlimited legal tender rupees, were also open to free coinage. It was a perfectly anomalous position. The very Act of 1835 which put India on the silver basis permitted by Section VII. the free coinage of a gold *mohur*, or fifteen-rupee piece,[1] of the weight 180 grains 11/12ths fine (same weight and fineness in gold as of the rupee in silver), and of five-rupee and ten-rupee gold pieces of the same fineness and proportionate weight as the *mohur*. The issue of a thirty-rupee gold piece was authorised by the Consolidating Act (XXIII.) of 1870.

In 1837 mint certificates of gold were made receivable in payment of taxes and exchangeable against silver rupees.

[1] Note that the bimetallic standard of France and the Latin Union fixed the ratio at 15½ to 1. Hence gold in India was undervalued in comparison with gold in Europe.

After four years, by a notification in January 1841, the receipt of gold coins minted under the Act of 1835 was authorised at Government treasuries at the rates indicated by the denominations of the pieces. In issuing such notifications the authorities evidently overlooked the simple application of Gresham's Law, with which even a schoolboy is familiar, for no gold could be tendered when it was undervalued at the rate fixed, as it normally was. On the other hand, large quantities were tendered when it was overvalued, and this occurred after the gold discoveries in California and Australia (1848-51) had led to a fall in the value of the yellow metal. Then the notifications of 1837 and 1841 were repealed by Lord Dalhousie (1st January, 1853), and gold was demonetised.

Movement for Gold. Throughout the sixties and the seventies of the last century there was a powerful and widespread movement in the country for gold currency. In its issue the bankers saw that they would profit in changing gold for silver coins. In 1859 a representation was made by the Indian shroffs and merchants of Calcutta, while in 1864 the commercial communities of Bombay, Calcutta and Madras sent several memorials to Government pressing on them the desirability of issuing gold currency.[1]

Closely following the gold movement, two events during the nineteenth century deserve special mention. They are (1) the Mansfield Commission and (2) the change in the silver market. The first, in spite of its importance, has been ignored by many writers on Indian currency;[2] the second had such far-reaching consequences in India that it sounded the death-knell of the Silver Standard.

Mansfield Commission of 1866. The Commission ap-

[1] *Currency and Prices in India*, by C. N. Vakil and S. K. Murajan, 1927, pp 7 and 12.

[2] The notable exceptions are Dr. B. B. Das Gupta (*Paper Currency in India*, 1927, p. 18, etc.), Prof. C. N. Vakil (*Currency and Prices in India*, 1927, pp. 25 *et seq.*) and Sir J. C. Coyajee (*The Indian Currency System*, 1835-1926, pp .30 *et seq.*).

pointed by the Government of India on the 3rd February, 1866, with Sir William Mansfield as Chairman, was the first of its kind set up in India. The Commission distinguished itself by making as early as 1866 two important recommendations,[1] viz.: (1) the introduction of a 'universal note,'[2] and (2) the introduction of a gold currency. The first recommendation was carried out in 1909, when for the first time the five-rupee note was made 'universal' for the *whole* of India;[3] the second recommendation forms the subject of acute controversy and doubt at the present time.

Silver Slump, 1872-92. From 1872 onwards the silver market experienced a severe slump. The value of silver in relation to gold kept on falling or, which is the same thing, the value of gold in terms of silver kept on rising. This was due to an unusual combination of causes which need not detain us. The important fact to note is that during the two decades preceding 1872 gold was practically throughout $15\frac{1}{2}$ times as valuable as silver, while in the two decades following 1872 gold rose to be 27 times as valuable as silver. The average price of silver in London was $60\frac{5}{8}$d. per oz. in 1872 and 39d. in 1892, while the exchange rate of the rupee averaged 1s. 11d. in 1872 and 1s. 3d. in 1892.[4] With a fall in the value of silver a fall in the value of the silver rupee was inevitable, because, as already pointed out, the silver rupee was then freely minted, so that its face value approximated closely to the value of the amount of silver in it. During this difficult period of over two decades the Government of India was faced with a two-fold problem. There was first the financial problem, for with every fall in the sterling value of the rupee the burden of the Home Charges

[1] Parliamentary Papers 148 of 1868.

[2] A term which seems to have been coined by the Commission. At that time India did not possess a single 'universal' or all-India note—*i.e.*, a note which was legal tender and encashable throughout India.

[3] See below, p. 17.

[4] The rate was still falling, being 1s. 1d. in 1894. (Vakil, *op. cit.*, p. 38.)

increased and the certainty of the Government finances diminished. There was, secondly, the economic problem, since instability in the value of the rupee caused great anxiety to the merchants and great injury to India's foreign trade.

Departure from Silver, 1893. After prolonged discussion of the problem, in 1893 India decided to maintain the value of the rupee by deliberately abandoning the silver standard.[1] To put the matter differently, the rupee departed from silver with the avowed object of maintaining its parity with gold without interference from fluctuations in the value of silver bullion. This did not mean that the rupee gave up or even altered its silver body, for in fact it embodied, as before, 180 grains of standard (11/12ths fine) silver. The departure from silver meant that the rupee in its value was no longer identified with a weight of silver, it was given a lower value as bullion than as coin. The former value depended, of course, on the particular market price of silver—*e.g.*, it was 1s. 3d. in 1893 with silver at 39d. per standard ounce, 10d. in 1915 with silver at 27d.; the latter value recommended by the Herschell Commission in 1892 was 1s. 4d. per rupee.

This rating of the rupee higher than its bullion value had two obvious merits to recommend it. In the first place, a fall in the gold value of silver bullion need not have caused a fall in the gold value of silver coin (the rupee), so long as the principle of 'token' currency was kept in action. In the second place, a rise in the gold value of silver bullion need not have caused a rise in the gold value of silver coin (rupee), so long as the margin between its face and bullion values did not entirely disappear. Of this more presently.

Recognition of an Important Monetary Principle, 1893-98. The principle of 'token' currency is one which now looks quite simple. In those days, however, it was but imperfectly

[1] By Act VIII. of the 26th June, 1893. Unrestricted coinage of silver was abolished in England in 1867.

understood, although it had been stressed by Professor Cannan in his earliest writings. In Cannan's own words the principle is that, 'given demand for a coin, adequate restriction of supply will keep its value up to any required level above that of its metallic contents.'[1] It found complete illustration in India, when the restriction in the supply of the silver rupee gradually led to a rise in its value from 1s. 2½d. in 1893 to very nearly 1s. 4d. (15·978d.), the rate aimed at in 1898.

Silver as Token Currency. It may be of interest to note here that the Indian rupee became *token* as part of a planned system, as contrasted with the English silver coins which became token 'more by accident than by design of the State or of monetary theorists.'[2] Further, since the silver rupee and other silver coins in India were all of the same fineness and proportionate weight, the moment the rupee became a token coin, other coins automatically fell in the same category, for no change was made in their composition.[3]

Evolution of the Exchange Standard, 1898-1916. The position was again reviewed in the first half of 1898 by the Fowler Committee, which recommended a Gold Standard with gold currency, but circumstances into which we need not go did not permit India to adopt the recommendation. Instead India evolved a monetary system of her own which neither the Fowler nor the Herschell nor even the Mansfield Commission had ever contemplated. The basis of the new

[1] *Money*, by E. Cannan, 1929, p. 38; see also pp. 36-39.

[2] *Modern Currency and the Regulation of its Value*, by E. Cannan, 1931, p. 21.

[3] Some change might, however, have been welcomed while fully compatible with the *token* character of the coins. For instance, the two-anna silver pieces which were—and still are—inconveniently small might well have been accorded a better size by alteration in weight and, if necessary, fineness or by patronising a baser metal. This, however, was not done until the last War, when nickel two-anna pieces and even four-anna and eight-anna (half-rupee) coins were issued. The nickel half-rupee was later withdrawn, but the four- and two-anna pieces are still issued, and the latter is certainly more popular than its silver counterpart which also exists. It may, however, be pointed out that the re-issue of two-anna pieces has been stopped since 1925-26. It is time that they were definitely withdrawn, as they only cause worry to their holders.

system is not to be found in any legislative enactment; it grew of itself from executive practice and depended on the executive will. It was distinguished by two special features.

In the first place, there was the use of two currencies—the silver rupee and the gold pound—one for local and the other mainly for international purposes. In the second place, there was an interesting mechanism by which the value of the local currency—the rupee—was maintained in terms of the English currency, the pound sterling (itself based on gold), at a certain maximum rate.

The value of the rupee having reached the level of 1s. 4d. in 1898, the Government attempted to prevent any further rise by the devices of (1) accepting sovereigns and half-sovereigns at R. 15 to the pound sterling;[1] (2) issuing notes and silver rupees in exchange for gold coin and bullion at the rate of 1s. 4d. to the rupee; (3) offering Council Bills[2] in exchange for sovereigns in London at a rate approximating to 1s. 4d. On the other hand, the value of the rupee was prevented from falling below approximately 1s. 4d. by (1) restricting or stopping the sale of Council Bills; (2) withdrawing rupees in circulation by means of transfers to the Paper Currency Reserve in India and the use of the equivalent of the same amount by the Secretary of State in England; (3) selling Reverse Councils at a rate of 1s. $3\frac{29}{32}$d.

Thus the currency system of India from 1898 onwards was a system built up and managed by executive action in which the rupee was unlimited legal tender and the right was given by ordinance to demand rupees for gold, but not to demand gold for rupees. All was well so long as the Government was both willing and able to give at 1s 4d. parity not only rupees in exchange for sovereigns or gold, but also sterling in ex-

[1] Government undertook to accept sovereigns and half-sovereigns in 1893, and declared them legal tender in 1899.

[2] *Council Bills* are bills payable in rupees in Calcutta, Bombay, or Madras, drawn by the Secretary of State for India on the Indian Government. *Reverse Councils* are bills payable in gold in London, drawn by the Indian Government on the Secretary of State at his direction. In either case it is the Secretary of State who controls the issue.

change for rupees. But trouble ensued if it was either unwilling to do so, as in 1907,[1] or unable, as in 1916, owing to causes which will be explained later.

In the light of the foregoing, it would appear that the monetary system of India from 1898 to 1916 was an exchange standard. But it was not, strictly speaking, a *gold* exchange standard, for there was no obligation on the currency authority during this period to give gold in exchange for the local standard currency (the silver rupee). It was a *sterling* exchange standard, which, however, practically amounted to a gold exchange standard, so long as sterling was not divorced from gold and so long as the Secretary of State and the Government of India maintained the interchangeability of rupee into sterling and sterling into rupee.

3. THE CURRENCY SYSTEM DURING 1916-25.

The Breakdown in 1916. The outbreak of the World War inaugurated a revolutionary change in the monetary situation all over the world. The immediate effects of the War were exhibited in India in (1) a great demand for sterling remittances;[2] (2) withdrawals of savings bank deposits;[3] (3) lack of confidence in the note issue, and a demand for gold.[4] All these events were anticipated and dealt with satisfactorily. What was not expected, however, was the unprecedented rise in the price of silver which began in 1916. The fall in the value of silver had led to the value of the rupee being divorced from that of its metallic contents after 1893, but the rise in the value of silver restored the former position.

[1] Exchange was weak owing to partial failure of the summer monsoon, and Government was reluctant to sell Reverse Councils.

[2] Up to the end of January 1915 Reverse Councils to the extent of £8,707,000 were sold. (*Indian Year Book*, 1931, p. 861.)

[3] About R. 10 crores were withdrawn within a few months (see below, p. 128).

[4] Notes to the extent of R. 10 crores were encashed; issue of gold had to be suspended. (*Indian Year Book*, 1931, p. 861.)

As already explained, the working of the pre-War currency system was based on the willingness and ability of the Government to supply rupees in exchange for gold or sterling, and sterling in exchange for rupees at 1s. 4d. per rupee. Since the silver rupee was a token coin, the former condition depended upon the price of silver being not higher than 43d. per standard oz. (11/12ths fine); for at that price the exchange value of a rupee at 1s. 4d. coincided with its bullion value. Now the price of silver in 1915 was 27¼d., but in April 1916 it had risen to 35⅛d., in December 1916 it was 37d., and in August 1917 it reached the level of 43d.,[1] at which point the face value of the rupee and its intrinsic value were identical. But this in itself was a source of much trouble to Government, for as the price of silver was still rising, it was obvious that silver rupees could not be offered in exchange for sterling at the rate of 1s. 4d. except at a considerable loss to the State.

On the other hand, the demand for rupees was greatly accentuated owing to two unexpected causes—viz., (1) an unusually large excess of Indian exports over imports,[2] and (2) heavy expenditure in India on behalf of the British Government.[3] Neither the import of precious metals (for there was an embargo on their movements) nor credits in India were possible. How was the situation to be met?

History repeated itself, and during 1917-19 the rupee was allowed to rise in value—it was impossible to prevent it—along with the rise in the value of silver, just as during 1872-92 it had fallen in value with the fall in the value of silver. In other words, the sterling exchange standard which had done service for nearly twenty years broke down in 1916, and its place was taken once more by a silver standard. At the same time, to meet the special emergencies

[1] *Indian Currency and Exchange*, by H. L. Chablani, 1929, p. 85.

[2] Taking the years 1916-17 to 1918-19, the excess of exports over imports was £6,000,000 more than in the corresponding years of the previous quinquennium. (*Indian Year Book*, 1931, p. 861.)

[3] The expenditure by December 1919 aggregated £240,000,000. (*Indian Year Book*, 1931, p. 861.)

of war, exchange was strictly controlled by Government,[1] and Council Bills were offered at rates which were raised from time to time in accordance with changes in the silver position. The price of silver rose from 43d. in August 1917 to 58d. in May 1919, and to 78d. about the middle of December 1919. The minimum rate for immediate telegraphic transfers was 1s. 4½d. on 3rd January, 1917; 1s. 5d. on 28th August, 1917; 1s. 8d. on 13th May, 1919; and 2s. 4d. on 12th December, 1919.[2]

The Blunder of 1920. At the end of the War a Committee presided over by Mr. (afterwards Sir) T. Babington Smith reviewed the currency and exchange position, and their most important recommendation was to link the rupee to *gold*—not sterling—at the rate of 2s. per rupee. In making this recommendation it was largely influenced by two factors —viz., (1) the rise in the gold value of silver, and (2) the decline in the gold value of sterling, which was then about 30 per cent. below par. The members seem not to have anticipated either a reversal in the behaviour of the silver market or a rehabilitation of sterling. Actually the subsequent fall in the price of silver outstripped its preceding rise. In February 1920 the price of silver was 89½d. per oz.; four months later, in June 1920, it was less than half (*i.e.*, 44d.). Moreover, while the Babington Smith Committee was drafting its report, the British Government was accepting the principles laid down by the Cunliffe Committee, which prescribed a policy of deflation, the effect of which was to force up the value of sterling very rapidly. Left to itself the silver rupee, like a standard coin, should have fallen in value with the fall in the value of silver, and would have been in June 1920 in the neighbourhood of 1s. 4d. sterling. When the price of silver rose during 1916-19 and the silver rupee

[1] Recent parallels of drastic exchange control have been afforded by Germany, Austria, Greece, Yugoslavia and Latvia. (*The Gold Standard and its Future*, by T. E. Gregory, 1932, p. 65.)

[2] *Indian Year Book*, 1931, p. 861.

ceased to be a token coin in the full meaning of the term, Government was compelled to acquiesce in raising the rate of exchange in accordance with the rise of the value of silver. But the authorities did not realise the necessity of reversing the process when the value of silver fell in 1920.[1]

But it might be urged that if Government could keep up the value of the token rupee by adequate restriction of its supply at 1s. 4d., it could also keep it up at a higher level, say 2s. And was that not the recommendation of the 1909 Committee? Undoubtedly a 2s. gold rupee could be achieved in course of time, given a certain demand for the rupee currency, by *adequate* restriction of its supply; but, other things being equal, what would have been an adequate restriction for 1s. 4d. sterling level would have been quite inadequate for the 2s. sterling level and still less for the 2s. gold level, since sterling in June 1920 was depreciated in terms of gold. But were conditions the same? The demand for silver rupees had changed—a very important factor for the problem in question. About the beginning of 1920 the balance of trade had turned against India; in other words, a fall in the demand for rupees had begun, and its effect could be seen in a fall in the rate of exchange by April 1920 to 2s. 4d. sterling (1s. 10¼d. gold). At the same time world prices were falling. All the circumstances, therefore, were unfavourable for artificially raising the value of the rupee. Indeed, to maintain the 2s. gold rupee was impossible except by the necessarily painful process of enormous deflation continued over a period of several years. The Babington Smith Committee had realised that the fall in prices was possible, though it had not regarded it as probable, and included in its report a recommendation that if it should come, the policy of aiming at a 2s. rupee should be recon-

[1] 'I must reiterate the belief that the real mischief was done not when the rate of exchange was raised to meet the rise of silver, but when it was not lowered as silver fell.' (*Article on Indian Currency and Finance*, by Sir Stanley Reed, *Bankers' Magazine*, September 1926, p. 308.)

sidered. It was the least pardonable of the errors of the Secretary of State that he ignored this warning.

The Government announced its acceptance of the recommendations of the Currency Committee of 1919 on the 2nd February, 1920, when the rupee was 2s. 9d. sterling, and declared the rupee equal to 2s. gold or 11·30016 grains of fine gold.[1] Silver had reached its maximum price in the previous December, and a rapid fall had begun, but the deflation policy in relation to sterling only took effect at the end of March; hence for two months the sterling equivalent of 2s. gold was increasing. In accordance with the declaration of the Government, the Secretary of State started selling Reverse Councils in limited amounts at rates varying between 2s. $3\frac{29}{32}$d. and 2s. $10\frac{27}{32}$d. sterling in accordance with the depreciation of sterling. Financial difficulties, however, made it impossible to withdraw the equivalent in rupees from circulation, an operation through which alone the sale of Reverse Councils could help the maintenance of the value of the rupee. Owing to the course of Chinese trade the gold value of silver, and therefore the bullion value of the rupee, was falling very rapidly; and owing to the fact that instead of the normal great excess of Indian exports of merchandise over imports there was a great excess of imports over exports, the demand for rupees for external trade purposes had disappeared, and had been succeeded by a keen demand for sterling, the offer of Reverse Councils in limited quantities at prices which offered a great profit to the purchasers, elicited tenders rising rapidly to fantastic figures, and the failure to satisfy more than an infinitesimal portion of this demand naturally tended to intensify still further the depreciation of the rupee.

After a vast quantity of Indian sterling reserves had been dissipated by selling Reverse Councils, *i.e.* by buying rupees, at the 2s. gold rate, the Secretary of State reduced his price

[1] Act XXXVI. of 1920.

to 2s. sterling as from 24th June, 1920, the market value having already fallen below this rate, and continued the process up to the 28th September, 1920, much to the indignation of all sections of Indian opinion. The sale of Reverse Councils from the beginning of 1920 totalled £55,382,000, and at the end of this series of transactions the sterling value of the rupees purchased was about £25 millions.[1]

September 1920 *to August* 1925. From October 1920 till August 1925, when the recent Royal Commission on Indian Currency and Exchange was appointed, the exchange was not, as is sometimes supposed, left to look after itself. But it was managed on expedients different from those adopted before. With the stoppage of the sale of Reverse Councils, the exchange, weak as it was, dropped down to as low a rate as 1s. 2⅞d. (under 1s. gold) in March 1921.[2]

According to an official statement, currency was contracted to the extent of R. 31 crores 58 lakhs in the year 1920-21 and 'the contraction of currency was continued in 1921-22 and 1922-23 by the transfer of sterling securities held in London to the Secretary of State's cash balance and by the discharge of Indian Treasury Bills held in the Reserve.'[3] This had the effect of restoring the rate to 1s. 4d. sterling by January 1923. Circumstances again became favourable in 1923 and 1924 for an improvement in the rate of exchange, the downward movement in world prices had been temporarily interrupted, the budgetary position was satisfactory, the monsoons were good, and the balance of trade was once again in favour of India. In October 1924 the rate was 1s. 6d. sterling (1s. 4d. gold).

In 1923-24 an important change in the system of Government remittances was introduced. In the past the Secretary

[1] The note circulation between 1st February and 15th September, 1920, was reduced from R. 185 crores to R. 158 crores only. (*Royal Commission on Indian Currency and Finance*, Minutes of Evidence, 1926, vol. ii., p. 15.)

[2] *Royal Currency Commission*, Minutes of Evidence, vol. ii., p. 32.

[3] The net contraction affected was 1,11 lakhs and 5,69 lakhs during 1921-22 and 1922-23 respectively. (*Currency Commission*, Evidence, vol. ii., p. 18.)

of State for India sold in London, by tender, Council Bills and Telegraphic Transfers once a week, and Intermediates between weekly sales. The sales of the Intermediates was stopped, and the Government of India started purchasing sterling in India through the Imperial Bank from exchange banks and recognised firms. The object of the change, in the words of Government, was 'that the factors influencing the immediate course of exchange could be gauged more accurately and more promptly in India by regulating the purchases with reference to the varying conditions of the market, the operations of Government could be conducted so as to avoid fluctuations in rates with benefit both to trade and to the country generally.'[1] This had the effect of keeping exchange on the whole steady at 1s. 6d. sterling from October 1924, and since sterling returned to the gold basis in April 1925, the 1s. 6d. sterling coincided with 1s. 6d. gold from that date.

4. PAPER CURRENCY, 1861-1925.

The Paper Currency Act of 1861. To complete the picture of the Indian currency system up to 1925, a brief analysis of the origin and development of paper currency may also be given. The year 1861 stands out as an important landmark in the history of Indian paper currency, for it was by Act XIX. of that year[2] that the Government of India, for the first time, assumed the sole right of issuing paper currency in India. Following the English model, the system was based on what is called the currency principle of note issue. There was a fiduciary note issue limited to R. 4 crores, and all notes issued in excess of that limit had to be covered by an equivalent in silver coin or bullion. The fiduciary limit was gradually raised to 14 crores in 1911.

[1] *Royal Currency Commission*, 1926, Minutes of Evidence, vol. ii., p. 22.

[2] Prior to 1861, under the Acts of 1839, 1840 and 1843 the Presidency Banks of Bengal, Bombay and Madras were authorised to issue notes payable on demand, but the circulation of these notes was limited practically to the Presidency towns.

Circles of Issue. But, unlike England, India was at first divided, for the purpose of paper currency, into three distinct circles of issue with headquarters at Calcutta, Bombay and Madras. Later the number of circles grew and varied,[1] but it finally settled down to seven in 1910.[2] The present circles of issue are the three original ones—*i.e.*, Calcutta, Bombay and Madras—and four others, viz. Cawnpore, Karachi, Lahore and Rangoon. As a consequence of the institution of circles of issue, notes of one circle continued for a long time to be legal tender and encashable only within that circle.

Introduction of 'Universal Notes.' The restriction of the legal tender character and encashability of currency notes to their respective circles of issue was an obvious disadvantage. The first step to remove the restrictions was taken in 1903 when by Act VI. five rupee notes were made 'universal'[3] throughout India except Burma. The exception in regard to Burma was removed by Act II. of 1909. The privilege of an all-India note was extended to ten and fifty rupee notes in 1910 and to one hundred rupee notes in 1911.[4] The five hundred and one thousand rupee notes have also become 'universal' with effect from the 13th June, 1931.[5] The only note still suffering from disability in circles outside that of its issue is of the highest denomination, viz. ten thousand rupees.

Lack of Elasticity. Another feature which has characterised the Indian paper currency from the very beginning is the lack of elasticity. No effort appears to have been made to improve matters until the War of 1914-19. It is interesting to note, however, that the closing of the Indian mints to the free coinage of silver in 1893 had the unconscious effect of indirectly imparting some elasticity to the paper currency.

[1] *Paper Currency in India*, by B. B. Das Gupta, 1927, pp. 90-92, etc.
[2] By the Currency Act of 1910 the sub-circles opened in 1864 were abolished and replaced by circles. [3] See above, p. 6.
[4] *Moral and Material Progress of India*, 1911-12, p. 168.
[5] *Capital*, 11th June, 1931, p. 1086.

By 1898 the rupee had definitely become a token coin, and 'a ten rupee note could be issued by buying silver worth even less than six rupees, coining it into ten rupees, and keeping the latter in the Paper Currency Reserve as the necessary metallic basis under the law.'[1] To put the matter succinctly, the token character of the rupee as the backing of Indian paper currency gave it a certain measure of elasticity at times.

Paper Currency during the War, 1914-19. The inelasticity of the paper currency in India was brought out, as never before, during the War. Prior to the War, the fiduciary note issue was limited to R. 14 crores. Between November 1915 and December 1919 the limit had to be raised a number of times until it was 120 crores. With a view to economising silver, whose rising value made it increasingly difficult for Government to coin rupees, small currency notes of the denominations of two and a half rupees and one rupee were issued in 1917.[2] There was thus an increase of paper currency in the country throughout the War as will be seen from the following table:[3]

(In Lakhs of Rupees.)

Year.	Circulation on 31st March.		Average Circulation.	
	Gross.	Active.	Gross.	Active.
1913–14 - - -	66,12	49,97	65,55	46,63
1914–15 - - -	61,63	43,96	64,04	45,43
1915–16 - - -	67,73	53,19	64,10	48,08
1916–17 - - -	86,37	67,08	76,14	59,36
1917–18 - - -	99,79	84,30	1,01,77	71,87
1918–19 - - -	1,53,46	1,33,58	1,33,20	1,13,84
1919–20 - - -	1,74,52	1,53,78	1,71,68	1,51,10

[1] Chablani, *op. cit.*, p. 22.

[2] These notes were later withdrawn, and finally ceased to circulate from the 1st January, 1926.

[3] *Report of the Controller of the Currency for* 1926-27, p. 31.

Reforms of 1919. With a view to reforming the paper currency and giving it greater elasticity the Indian Currency Committee of 1919 made two important recommendations. These were that the metallic portion of the Reserve should be 40 per cent. of the gross circulation, and as an experimental measure notes might be issued against the security of bills of exchange up to a limit of 5 crores.[1]

Legislation of 1920 *and After*. In 1920 a very important Act (XLV.) was passed which made both temporary and permanent provisions with regard to the Paper Currency Reserve. The temporary provisions which came into effect from the 1st October, 1920, allowed rupee and sterling securities to be held in any proportion up to a total limit of only 85 crores (instead of 120). Further, the gold and sterling securities in the Reserve were to be revalued on the basis of R. 10 per sovereign and the gap was to be filled by the issue of *ad hoc* securities of the Government of India.

The permanent provisions were designed to introduce automatic elasticity in the paper currency circulation by the following two devices: In the first place, the fiduciary portion of the Reserve was no longer to be a fixed amount, but was to be such as not to exceed the value of the metallic portion. In the second place, emergency paper currency up to a limit of 5 crores could be issued against commercial bills of exchange of a maturity not longer than ninety days.[2]

By the Indian Paper Currency Amendment Act of 1923 the limit of emergency currency was raised from 5 to 12 crores. Of the 12 crores, the first 4 crores could be lent to the Imperial Bank of India when the Bank rate was 6 per cent., the next 4 crores when it was 7 per cent. and the last

[1] *Report of the Indian Currency Committee*, 1919, para. 80.

[2] Detailed regulations on the subject were issued on the 16th February, 1922, under which notes up to 5 crores were to be lent to the Imperial Bank against internal trade bills or *hundis* (not export and import bills of exchange as recommended by the Currency Committee of 1919) at 8 per cent. per annum.

4 crores when it was 8 per cent. This scale was revised in September 1924, so that the first four crores could be lent at 6 per cent. and the remaining eight crores at 7 per cent.[1]

In February 1925 the Indian Paper Currency (Amendment) Act was passed by which the permissible limit of the holding of securities in the Reserve was raised from 85 to 100 crores, of which not more than 50 crores were to be *ad hoc* securities of the Government of India.

Progress of Note Circulation, 1920-25. The progress of note circulation after the termination of the War was far from rapid. The statistics[2] are given below, but the causes of the slow progress are dealt with in the next chapter.

(In Lakhs of Rupees.)

Year.	Circulation on 31st March.		Average Circulation.	
	Gross.	Active.	Gross.	Active.
1920–21 - - -	1,66,16	1,47,88	1,63,51	1,38,88
1921–22 - - -	1,74,76	1,57,23	1,73,80	1,52,22
1922–23 - - -	1,74,70	1,61,10	1,76,33	1,53,27
1923–24 - - -	1,85,85	1,69,06	1,79,01	1,56,93
1924–25 - - -	1,84,19	1,66,55	1,79,27	1,60,91

Character of Note Circulation, 1920-25. A word may be said in regard to the character of the note issue. During the quinquennium 1920-25, both the ten and one hundred rupee notes, but the former much more than the latter, gained in popularity at the expense of notes of other denominations. This may be seen from the table on page 21.[3]

Decline in Encashment of Foreign Circle Notes, 1920-25. Another interesting feature of the quinquennium under

[1] For further details on the subject see *Royal Currency Commission*, 1926, Minutes of Evidence, vol. ii., pp. 21 *et seq.*
[2] *Report of the Controller of the Currency for* 1926-27, p. 31.
[3] *Ibid.*, p 64.

Year.	Percentage to Gross Circulation (excluding R. 10,000 Notes) of the Circulation of Notes for—								Total.
	Rs. 1.	Rs. 2/8.	Rs. 5.	Rs. 10.	Rs. 50.	Rs. 100.	Rs. 500.	Rs. 1,000.	
1920–21 -	6·4	·4	9·5	35·5	2·6	31·9	1·7	12·0	100
1921–22 -	6·2	·2	10·0	36·3	2·5	34·2	1·3	9·3	100
1922–23 -	6·7	·1	10·0	34·7	2·3	36·4	1·0	8·8	100
1923–24 -	6·6	—	9·3	33·4	1·8	40·5	·9	7·5	100
1924–25 -	2·5	—	9·3	40·5	1·5	37·7	·8	7·7	100

review is the marked decline in the encashment of foreign circle notes. The statistics[1] below are self-explanatory:

Year.	Amount of Foreign Circle Notes Cashed in the Various Circles.
1920–21 - - - -	60,97,59,380
1921–22 - - - -	50,86,41,460
1922–23 - - - -	44,49,60,520
1923–24 - - - -	39,97,94,640
1924–25 - - - -	34,60,31,900

[1] *Reports of the Controller of the Currency* for the years 1923-24 and 1924-25, pp. 93 and 67 respectively.

CHAPTER II

THE CURRENCY COMMISSION OF 1925–26 AND AFTER

1. THE MAIN DEFECTS OF THE CURRENCY SYSTEM.

By 1925 currency conditions throughout the world were becoming more stable: in April 1925 England returned to the gold standard and was followed by the Union of South Africa on the 1st July and by Australia and New Zealand. On the 25th August, 1925, a Royal Commission was appointed 'to examine and report on the Indian exchange and currency system and practice, to consider whether any modifications are desirable in the interests of India and to make recommendations.' So thoroughly did the Commission go about their task that whatever differences there may exist in regard to their recommendations, there is no denying the fact that their report—which was signed on the 1st July, 1926—is one of the most important financial documents of recent years.

According to their findings the Indian exchange and currency system in 1926 suffered from the following main defects:

'(1) The system is far from simple, and the basis of the stability of the rupee is not readily intelligible to the uninstructed public. The currency consists of two tokens' (silver rupees and currency notes) 'in circulation, with the unnecessary excrescence of a third full value coin' (the sovereign) 'which does not circulate at all. One form of token currency' (silver rupees) '(into which there is an unlimited obligation to convert the other) is highly

expensive, and is liable to vanish if the price of silver rises above a certain level.[1]

(2) There is a cumbrous duplication of reserves, with an antiquated, and dangerous, division of responsibility for the control of credit and currency policy.

(3) The system does not secure the automatic expansion and contraction of currency. Such movements are too wholly dependent on the will of the currency authority.[2]

(4) The system is inelastic. The utility of the provision for elasticity made on the recommendation of the Babington Smith Committee is affected by the methods of financing Indian trade.'[3]

The first and third defects hardly require any further elucidation. As regards the second, Government held in April 1926, as it does even now, two reserves—the Paper Currency Reserve and the Gold Standard Reserve. The former consists of the proceeds of note issue and serves as a backing against the notes in circulation; the latter has been built up from the profits of the coinage of silver rupees and is meant to maintain their external value. But the distinction between the functions is not very clear and they often overlap. If notes are to be converted into silver rupees and the latter are to have a certain fixed value, the convertibility of notes into rupees would also imply the maintenance of their external value. Similarly the task of maintaining the external value of the silver rupees, so long as they must be given in exchange for notes, must involve the maintenance of the external value of the notes at the same time. These reserves—two where they could well be one—were in 1926, as they still are in 1933, separated from the banking reserves of the country. 'The Government controls the currency. The credit situation is controlled, as far as it is controlled at all, by the Imperial Bank. With

[1] With the 1s. 4d. rupee its melting point is reached when the price of silver is 43d. per standard ounce; with the 1s. 6d. and 2s. rupee, when the price of silver is 48d. and 63d. per standard ounce respectively. (See above, pp. 10-11.)

[2] See above, pp. 8 *et seq.*

[3] *Report of the Royal Commission on Indian Currency and Finance*, 1926, p. 10.

divided control, there is likelihood of divided counsels and failure to co-ordinate.'[1]

Taking the fourth defect—viz., the inelastic currency—it is one of the curious features of the Indian currency situation that, in spite of the readiness of Government to issue emergency currency with a view to relieving financial stringency in busy seasons, the financial stringency has often remained unrelieved. As already noticed in the preceding chapter, under Section 20 of Act X. of 1923 (amended in 1924), the Imperial Bank of India is entitled to receive funds up to 12 crores of rupees against self-liquidating *hundis* or trade bills. But it is a great defect that emergency currency cannot be issued until interest rates are at a certain level. Secondly, the difficulty comes in finding an adequate supply of such bills, because they are not drawn in large numbers. Trade in India is generally financed by means of cash credits or promissory notes—not *hundis* or bills.[2]

2. RECOMMENDATIONS: (A) A CENTRAL BANK.

Bearing in mind the foregoing defects of the Indian monetary system, the two outstanding recommendations of the Commission, to which all others are ancillary, were (1) the establishment of a Central Bank and (2) the introduction of the Gold Bullion Standard.

The main object of the establishment of a Central Bank was to provide a unity of policy in the control of credit for the achievement of monetary stability. It was to be an entirely new institution quite apart from the Imperial Bank of India.[3] The new institution, to be called the 'Reserve Bank of India,' was, like other Central Banks of the world, to have the usual four rights: the right of note issue, the

[1] *Report of the Royal Currency Commission*, 1926, p. 9.

[2] For further details on the subject see my *Indigenous Banking in India*, 1929, pp. 179-81.

[3] Sir Purshotamdas Thakurdas in his *Minute of Dissent to the Royal Currency Commission Report* (pp. 119-20) favoured the conversion of the Imperial Bank into the Reserve Bank of India.

right to hold the reserves of the commercial banks, the right to buy and sell securities, and the right to discount bills.[1] Like the Bank of England, the Reserve Bank of India was to be a shareholders' bank with a fully-paid-up capital of R. 5 crores. Unlike the Bank of England, but with a view to ensuring for it beyond any manner of doubt freedom from political pressure and conduct of business on 'lines of prudent finance,' a director of the Bank was not to be a member of the provincial or central legislature or a representative of any commercial bank.

Following the practice of the Imperial Bank of India, the Reserve Bank was to have three local boards and a central board. The central board was to consist of 14 voting members and 1 non-voting member as follows:

'(*a*) Presidents and Vice-Presidents of the local boards and one other member elected by each of them.

(*b*) A Managing Governor and a Deputy Managing Governor to be appointed by the Governor General in Council.

(*c*) Not more than three non-official members to be nominated by the Governor General in Council.

(*d*) A Government official having the right to attend and advise, but not to vote.'

The Bank was to enjoy an assured life of 25 years, in the first instance, as compared with 12 years in the case of the Bank of England at its inception in 1694. Finally, like the Bank of England, it was to work through two departments, the issue department and the banking department—a system which in the opinion of the Macmillan Committee is without much meaning.[2]

2. (B) THE GOLD BULLION STANDARD.

The second important recommendation of the Royal Commission was in regard to the particular monetary system

[1] *Committee on Finance and Industry*, London, 1931 (Cmd. 3897), p. 16.

[2] *Ibid.*, paras. 331-336. In paras. 337-340, the Committee definitely recommends the amalgamation of the banking department with the issue department.

which would best suit the changing conditions of India. The Commission considered several alternative policies—viz., an improvement of the sterling exchange standard, a gold exchange standard, and a gold standard with or without gold currency. Every one of these standards was subjected to a close examination with reference to India's special circumstances, and it was the unanimous verdict of the Commission that no standard other than gold would either suit or satisfy the Indian conditions. In fact no monetary standard in the world has yet proved to be quite satisfactory, but, according to western experience, of all monetary standards the gold standard in 1926 seemed to be the least unsatisfactory.[1] India had long desired a gold standard, so that the important question was not whether India should or should not have a gold standard, but what particular form of gold standard was most suitable. Sir Basil Blackett's scheme was to give India a gold standard of the pre-War pattern—*i.e.*, a gold standard with a gold currency, but this, of course, involved the purchase of large stocks of gold. The United Kingdom of Great Britain and the United States of America could be invited to give up part of their gold stocks, but that would have had the undesirable consequence of still further deflating the currency and of intensifying the fall of prices in those countries. England had returned to the gold standard only in April 1925, and neither England nor America could view with favour such disturbance to their monetary systems and injury to trade and commerce generally. Moreover, all such further depression of prices would be injurious to all debtor countries, and to India specially, as a debtor country with heavy sterling liabilities. Thirdly, India could not purchase gold without at the same time selling silver. Large sales of silver were bound to upset the silver market and prove injurious to the interests of the Indian people and Government itself. The disturbance of the silver market

[1] *The Return to Gold*, by T. E. Gregory, 1925, p. 60.

might affect the Chinese trade and induce China to give up her silver standard in favour of gold with further accentuation of the evil. The Commission, therefore, recommended for India the gold bullion standard on the new English model—a new type of the gold standard with no gold currency in circulation. This standard claimed the virtue of being (1) as effective a gold standard as any gold standard can be, and (2) not so expensive as a gold standard in the nineteenth-century sense must necessarily be. On the other hand, the gold standard with gold currency in circulation had been in use in England until the outbreak of the War and with it India had been long familiar. The new standard (without gold currency) was new even to England, and of it India knew next to nothing. Indian public opinion had thus a prejudice against it from the very beginning, and it did not receive an impartial consideration on its merits. Such an impartial consideration would have revealed another defect. The policy recommended—and also the policy actually carried out—involved the replacing of silver in the reserves by gold, and therefore added to the appreciation of gold and depreciation of silver, both of which are injurious to India. It was therefore open to the same objection as the policy of establishing a gold standard with a gold currency, but not, of course, to the same degree.

Peculiarities of the Proposed Standard. It must not be supposed, however, that the gold bullion standard proposed for India agreed in every particular with that adopted in England in 1925. In fact the two varied in several respects, and they may well be compared and contrasted with a view to clearing up the position.

In the first place, in both the systems the unit of currency was to be equal in value to a fixed and invariable quantity of gold bullion. But while in England the pound sterling in the Act of 1925 retained its *old* gold parity of 113·0016 grains gold, the rupee in India was proposed to be linked to

a *new* gold parity of 8·47512 grains gold, its pre-War gold parity, if there was one, being 7·5334 grains gold. In fact a statutory gold parity of the rupee before the War did not exist, the parity kept up by Government was 1s. 4d. sterling, although in practice it amounted to 7·5334 grains gold.[1] The rupee did have a statutory gold parity of 11·30016 grains gold after 1920, but that parity had been inoperative.[2] The proposal of the new parity, although it was recommended by all members of the Commission but one, caused the greatest dissatisfaction in India and clouded some very important issues. To this discussion, however, we shall return presently.[3]

Secondly, the Bank of England, according to the Act of 1925, was under a statutory obligation to buy gold in unlimited quantities at the rate of £3. 17s. 9d. per standard ounce (11/12ths fine), and to sell gold without limit, but in quantities of not less than 400 ounces fine at £3. 17s. 10½d. per standard ounce. It was proposed that the currency authority in India (the proposed Reserve Bank of India) should also be under a similar statutory obligation in regard to the purchase and sale of gold with no maximum limit, but with this difference, that the minimum limit of 400 fine ounces was to apply to the purchase of gold as well as its sale. Further, the Commission elaborated an original and ingenious plan by which the sale of gold was to be so regulated that the Bank was to be free 'in normal circumstances from the task of supplying gold for non-monetary purposes.'[4] This was evidently a departure from the orthodox theory which makes no distinction between one kind of gold demand and another. But its justification in the eyes of the Commission was the unusual extent to which India was accus-

[1] See above, pp. 9 *et seq.*
[2] See above, p. 14.
[3] See below, pp. 36 *et seq.*
[4] For the method by which this was to be secured see the *Royal Currency Commission Report*, 1926, paras. 64 and 150.

tomed to absorb gold for social purposes and for the purpose of hoarding.

Thirdly, the Gold Standard Act of 1925 did not demonetise gold in England, although it did deprive the people of their right to get gold coins in exchange for gold bullion. The legal tender quality of the sovereign and half-sovereign was proposed to be taken away in India. But with a view to making the gold standard visible to the ordinary public, it was proposed to offer ' on tap ' savings certificates redeemable in three or five years in legal tender money or gold at the option of the holder.[1]

Fourthly, all silver coins in England continued to be legal tender up to 40 shillings only. In the Indian system the rupee and half-rupee were to continue to be legal tender without limit and other silver coins to the extent of one rupee. It is sometimes erroneously believed even by those who ought to know better that the proper position of a rupee under a gold standard is not to be unlimited legal tender. As a matter of fact, it is only by accident that the silver coins in England are limited legal tender. Like the Indian rupee the English half-crown might well have been unlimited legal tender without causing the least trouble or inconvenience.[2]

Finally, the basis of the issue of paper currency in England, regulated by the Currency and Bank Notes Act of 1928, is a fiduciary limit of £260,000,000 which can be temporarily exceeded in cases of emergency subject to the permission of the Treasury.[3] Paper currency in India was to be issued by a Central Bank and was no longer to be convertible by law into a silver token currency. Again in conformity with the

[1] For details see *Royal Currency Commission Report*, 1926, paras. 67-68.

[2] *Money*, by E. Cannan, 1929, pp. 32-33.

[3] The principle of fiduciary issue in its application to England is well explained in the *Report of the Committee on Finance and Industry* (Cmd. 3897), 1931, pp. 138 *et seq*. Since the passing of the Act of 1928, an increase in the fiduciary issue by £15,000,000 was for the first time permitted by the Treasury in 1931 (*vide* the Bank of England's announcement of 1st August, 1931).

English practice, the Paper Currency and Gold Standard Reserves were to be unified into one, but unlike England the old system of fiduciary note issue was to be given up, and, in keeping with the American and Continental practice, there was to be a proportional reserve system instead.[1] Gold and gold securities were to form 40 per cent of the new reserve, subject to a temporary reduction with the permission of Government on payment of a tax.[2]

3. ATTEMPTS AT REFORM.

Proposed Currency and Banking Legislation, 1927. Three bills embodying the Currency Commission's recommendations were introduced in the Indian Legislative Assembly on the 25th January, 1927. They were (1) the Currency Bill ' to amend the Indian Coinage Act of 1906, and the Indian Paper Currency Act of 1923, and lay certain obligations on Government in regard to the purchase of gold and sale of gold exchange'; (2) the Gold Standard and Reserve Bank of India Bill ' to establish Gold Standard and Reserve Bank '; (3) the Imperial Bank of India (Amendment) Bill.[3]

3. (A) THE RESERVE BANK BILLS, 1927 AND 1928.

The Reserve Bank of India Bill, 1927. Taking the proposed banking legislation first, the Reserve Bank of India Bill of 1927[4] closely followed the recommendations of the Currency Commission in that regard and provided for a shareholders' institution. Members of the Indian legislature, both central and provincial, and representatives of commercial banks were specifically excluded from the directorate of the Bank.

[1] The Macmillan Committee in England favoured a maximum permissible fiduciary issue of £400,000,000 and a minimum gold reserve of £75,000,000 subject to deviation in exceptional circumstances. (Cmd. 3897, 1931, pp. 141-2.)

[2] *Royal Currency Commission Report*, 1926, pp. 50 *et seq.*

[3] *Legislative Assembly Debates, India* (Official Report), vol. I., 25th January, 1927, pp. 59 *et seq.*

[4] Its full title was ' Gold Standard and Reserve Bank of India Bill,' but attention is confined to the Reserve Bank scheme here.

The Bill fixed the share capital of the institution at R. 5 crores, as recommended by the Commission, and gave it the sole right of note issue for twenty-five years, subject to renewal. With a view to compensating the Imperial Bank of India for some of the privileges it was required to give up, the Imperial Bank (not the shareholders, as was recommended by the Commission) was given the option of subscribing 30 per cent. of the capital of the new Reserve Bank. The central board of the Imperial Bank agreed to the offer, particularly in view of the fact that, by the Imperial Bank of India Amendment Bill, the Imperial Bank was to be released from the existing limitations on its business at the London branch and to be permitted to open branches outside India, not only in London, but also elsewhere. At the same time its powers with regard to its internal business were to be increased and the restriction on foreign exchange business removed.

The Bill was referred to a Select Committee in which the conflict raged mainly on two points—viz., whether or not it should be a shareholders' bank, and whether it was really desirable to debar members of the legislature from becoming directors of the institution. As for the first point, there can be no question that a Central Bank is usually a shareholders' bank, the exception being in small countries like Latvia and Finland.[1] But the more important argument for a shareholders' institution is the assumed undesirability of Government management which cannot be avoided if it is a State and not a shareholders' bank. It is also claimed that the shareholders' management is most efficient, but to those who know the working of joint-stock companies it must be apparent what interest the shareholders themselves take in the business and how little voice they actually have in its working, which is really controlled by the directors.

[1] *Central Banks*, by Sir Cecil H. Kisch and Miss W. A. Elkin, 1932, pp. 43-44.

The main objection to the shareholders' scheme, however, was rooted in the fear that a shareholders' bank might get into foreign hands to the prejudice of Indian interests. On this point the Government tried its best to accommodate Indian opinion.[1]

But the management of the bank was a vital matter on which compromise was difficult. Government insisted, and quite rightly according to the generally accepted principle of sound central banking, that the central bank of the country should be free from all political influence.[2] Indian opinion was equally insistent that in the peculiar conditions of the country and with the Governmental mistakes of 1920 still fresh in the public mind, representation of the Indian legislature on the Central Bank of the country should not be altogether absent. A deadlock ensued.

The New Reserve Bank Bill, 1928. On the 1st February, 1928, Sir Basil P. Blackett, the Chancellor of the Indian Exchequer, sought to introduce a new Bill, as a result of his cold weather (1927) consultations with the India Office. The new Bill, while retaining the share capital as the basis of the proposed reserve bank, was intended to meet the wishes of the Indian legislature in several ways. In the first place, with a view to avoiding the concentration of capital in a few hands and providing its distribution as widely as possible, the Bill laid down that no person, either individually or jointly, was to hold bank shares worth more than R. 20,000, and preference was to be given to applicants for a single share of R. 100. In the second place, in order to emphasise the democratic character of the institution, no shareholder, whatever the amount of his or her share, was to have more than one vote. In the third place, in order to prevent the shares from passing into the hands of foreigners,

[1] *Vide* Sir Basil P. Blackett's assurance: 'May I say that I shall be perfectly willing to add to the draft amendments I have that no one who is not an Indian or a British subject ordinarily resident in India should have a vote.' (*Legislative Assembly Debates, India* (Official Report), vol. iv., 30th August, 1927, p. 3659.)

[2] Kisch and Elkin, *op. cit.*, p. 61.

shares were to be allotted only to Indians, British subjects domiciled or ordinarily resident in India, and Indian corporations or British companies with a branch in India. In the fourth place, in accordance with the suggestion of the committee which had considered the earlier Bill and which wanted the profits to be limited to 6 per cent., and in supersession of the recommendation of the Commission, which had put it at 8 per cent., the new Bill provided for the limitation of the dividends to 5 per cent. per annum unless the surplus available, after provision for dividends, exceeded four crores of rupees, with a maximum distribution on the shares of 7 per cent. Lastly there was an important provision, with a view to securing the shareholders' representation on the management of the new bank, that they were to elect from among themselves ninety-two delegates for five years and these were to select eleven directors out of a total of twenty-four.[1] The new Bill proved still-born. The President of the Assembly did not permit the Bill to be introduced since the previous Bill of 1927 was already before the house.[2] Government, therefore, proceeded with the former Bill and tried to pass it with certain amendments, but the effort to establish a reserve bank failed in 1928-29.

3. (B) THE CURRENCY ACT, 1927.

The Currency Bill of 1927, however, had better luck than the Reserve Bank Bills. The former was passed by the Indian legislature into an Act, but with one important emendation that the obligation placed on Government was in regard to the purchase of gold and sale of *gold or sterling* and not *gold exchange* as originally proposed. The Act received the assent of the Governor-General on the 26th March, 1927, and came into force from the 1st April, 1927.

[1] *Gazette of India*, 14th January, 1928.
[2] *Legislative Assembly Debates, India* (Official Report), vol. i., 1st February, 1928, pp. 73-77.

As the Currency Act of 1927 was only an amending Act, the following analysis of the position created by it may prove useful.

(1) The silver rupee, the silver half-rupee and currency notes were all legal tender without limit, but open to issue at the will of Government. The parity of exchange was 8·47512 grains troy of fine gold per rupee. (Sections 2, 4 and 12, and 3 of Acts VI. of 1903, III. of 1906, and IV. of 1927 respectively.)

(2) Gold coins were no longer legal tender, but could be received at any Government currency office and at any Government Treasury other than a Sub-Treasury as *bullion* at the rate of 8·47512 grains fine gold per rupee. (Section 2 of the Currency Act, 1927.)

(3) Gold in the form of bars containing not less than forty tolas (15 oz.) fine could be offered for sale in unlimited quantities to Government at the Bombay Mint,[1] and Government was under a statutory obligation to buy gold at the rate of R. 21. 3a. 10p. per tola fine. (Section 4 of the Currency Act, 1927.)

(4) For the first time holders of legal tender currency—*i.e.*, silver rupees and paper notes—were entitled to obtain, on application to the Controller of the Currency, Calcutta, or the Deputy Controller of the Currency, Bombay, either gold at the Bombay Mint or, at the option of Government, sterling for immediate delivery in London, provided they demanded and paid for an amount of gold or sterling of not less value than 1,065 tolas (400 oz.) of fine gold. The purchase price fixed for gold was R. 21. 3a. 10p. per tola of fine gold. As for sterling, R. 21. 3a. 10p. was to buy as much sterling as was 'required to purchase one tola of fine gold in London at the rate at which the Bank of England' was 'bound by law to give sterling in exchange for gold, after

[1] Or 'any other place notified in this behalf by the Governor-General in the *Gazette of India*,' but no other place has yet been so notified.

deduction therefrom of an amount representing the normal cost per tola of transferring gold bullion in bulk from Bombay to London, including interest on its value during transit.' (Section 5 (1) and (2) of the Currency Act, 1927.)

As the latter rate was bound to vary, the Governor-General in Council had to notify from time to time the rate determined as above in the Gazette of India. (Section 5 (3) of the Currency Act, 1927.)

Review of the Position during 1927-31. Since Government had the option of giving sterling and not gold in exchange for rupees—an option which they actually exercised—the monetary standard of India, as created by the Currency Act of 1927, was, strictly speaking, a sterling exchange standard. But it is fair to point out in parenthesis that so long as sterling did not go off the gold parity, the sterling exchange standard was as good or as bad as the gold exchange standard. Further, if Government chose to exercise the other option open to it of offering gold in exchange for rupees, India would have had, in point of fact, if not in law, a gold standard. Thus the standard of 1927, though a sterling exchange standard, was capable of becoming a gold standard, and certainly indicated that the gold standard was the ideal of Government.

The new standard was superior to that of 1898-1916 inasmuch as there was a statutory gold parity for the rupee and a statutory obligation on Government with regard to the purchase of gold and sale of gold or sterling (itself based on gold). But the sterling exchange standard still retained most of the old characteristics which had been condemned by the Commission—viz., the conversion of one token currency (silver rupee) into another (paper currency), the duplication of reserves, and the separation of currency from credit control. The Currency Act of 1927 was never intended to be the final currency legislation in India. It was to be supplemented by the other two Acts to which reference has already

been made, but unfortunately they did not get enacted. This, then, was the position in India until the recent currency crisis.

4. THE CURRENCY CONTROVERSY OF 1926-31.

Ever since the passing of the Currency Act of 1927 further agitation has mainly centred upon whether or not the 1s. 6d. gold ratio has been the right ratio chosen for the rupee; the question of the establishment of a Gold Standard and the Reserve Bank having somewhat receded into the background.

Point of Controversy. The advocates of the 1s. 6d. ratio denied that prices and wages had failed to adjust themselves to the eight grain gold rupee by 1926; the opponents of the 1s. 6d. ratio affirmed that the adjustment of prices and wages to the eight grain gold rupee was still to come. Thus the currency controversy was fairly begun.

But looking back to the last few years one thing is now beyond dispute, and that is the loose grip of the rupee on the 1s. 6d. gold ratio during the three or four years following its formal introduction.

Exchange Weak in 1927. To bring out the weakness of the exchange from the very start, no apology need be made for the following somewhat lengthy quotation from a leading financial journal of England.

'The advance[1] in the rate of the Imperial Bank of India on February 10 came as a complete surprise, for monetary conditions had been remarkably easy this season in India, and the Bank had not made use of any part of its power to borrow more currency from the Government, which power became exercisable to the extent of R. 4 crores with Bank rate at 6 per cent. It appeared, however, that when the Bank desired to make use of this power to the extent of R. 2 crores, it was charged 7 per cent. instead of Bank rate on this occasion, so that unless it were prepared to re-lend the money at a lower rate, the Bank was obliged to advance its rate. *Evidently the Government has changed*

[1] It was an advance from 6 to 7 per cent.

its regulations[1] *without making any public announcement, and it would seem that this has been done as a part of the measures to sustain the rupee exchange at* 1s. 6*d.*, *for the rate had been showing signs of weakness latterly*, notwithstanding the increased demand for money in India, and had an additional Rs. 4 crores of money been released with Bank rate at 6 per cent., the tendency might have been encouraged. The Government is evidently determined to maintain the 1s. 6d. rate, although the opposition to it is strong in some quarters, certainly stronger than has been thought in this country. . . .'[2]

Exchange Weak in 1928 *and* 1929. There is no denying the fact that the Indian exchange was weak in 1928 and in the early part of 1929, and Government was in a difficult position. It had to provide for home remittances to the extent of about £7,000,000 between 15th February and 31st March at a time when sterling bills in the market were difficult to find. The Government had two alternatives before it, either to ship gold or raise the price of money in India. It chose the latter course and raised the rate of interest at which it was prepared to give emergency currency up to 12 crores to the Imperial Bank of India from 7 to 8 per cent. as from 14th February, 1930. The Bank had no option but to raise its own rate accordingly.[3] Whatever may be said in justification of the Governmental action, it certainly exposes the weakness of the Indian monetary system in which Government can openly interfere with the regulation of the Bank rate—an action bound to lead to much comment and criticism.

Exchange Weak in 1930-31. Exchange was weak again for the greater part of 1930-31. 'The middle of November (1930) saw the beginning of a distinct change for the worse. A period of consistent weakness set in which lasted until the end of February. This was partly due to the fact that

[1] The regulations referred to are given at p. 19 above.
[2] *The Bankers' Magazine*, March 1927, pp. 431-2. The italics are mine.
[3] *The Bankers' Magazine*, March 1929, pp. 373-4.

rumours were freely circulated to the effect that one of the recommendations to be made at the Round Table Conference which was to meet in London on the 12th November was that a reversion should be made to the old statutory 1s. 4d. ratio.'[1] The market was speculative, sterling to the extent of £5,650,000 being sold between November 1930 and March 1931.[2]

Contraction of Currency, 1926-27 *to* 1930-31. The weakness of the exchange coincided with and was presumably corrected by the large contractions of currency which took place between 1926-27 to 1930-31. Figures of silver currency are not available, but the net contraction of note currency during the quinquennium was no less than R. 102·50 crores.[3] This is an unusually large figure, even if allowance be made for the general fall in the price of commodities.

The public mind was much exercised, and the President of the Indian Chamber of Commerce, Calcutta, in his letter dated 26th November, 1930, to the Honourable Finance Member, Government of India, complained that 'manipulations of various kinds have been resorted to with a view to create artificial stringency and unjustified high money rates in India.'[4] On the 3rd February, 1931, Lala Rameshwar Prasad Bagla asked the following question in the Legislative Assembly: 'Is it a fact that manipulations of various kinds were resorted to by Government with a view to maintain and thereby justify the eighteen pence ratio?' The Honourable Sir George Schuster, Finance Member, replied: 'Government in their capacity as currency authority, and in order to maintain stability of the exchange value of Indian currency, have taken measures of the kind normally employed by currency authorities in all countries with stabilised currencies.'[5]

[1] *Report of the Controller of the Currency for* 1930-31, p. 14.
[2] *Ibid.* [3] *Ibid.*, pp. 20-21.
[4] *Report of the Indian Chamber of Commerce,* Calcutta, for 1930, p. 194.
[5] *Legislative Assembly Debates, India* (Official Report), 3rd February, 1931, p. 551.

Position of Government. The position of Government was clear. It was pledged to maintaining the 1s. 6d. gold rupee and it could hardly be blamed for taking such measures as were required to redeem its pledge. Doubts were set at rest for the time being when the Secretary of State for India made the following statement in the House of Commons on the 11th February, 1931:

'The Government regard the rupee question as having been settled in 1927, when the Indian legislature passed the Currency Act by which the rupee was rated at 1s. 6d. gold. The Government will use all the means in their power to maintain this rate in accordance with their statutory obligations.'[1]

5. THE CURRENCY CRISIS OF 1931.

A Critical Situation. The beginning of 1931-2 marked the development of a critical situation. Firstly, the economic depression, instead of showing signs of abatement, proved still worse to India owing to the continued catastrophic fall in the prices of its agricultural products with the consequent decrease in the purchasing power and increase in the real burden of debt of the Indian peasantry. At the same time India's normally poor capacity to overcome the evil consequences of an economic crisis had been appreciably reduced by internal disunion and discontent. Attempts were made to alleviate the position by remission of rent and revenue, but the situation was too complicated to admit of an easy solution. Secondly, the collapse of prices and trade caused a serious deterioration in the Governmental budgetary position. The situation was met partly by large short-term loans in the form of treasury bills, which at the end of August 1931 were outstanding at the record figure of R. 83·4 crores, and partly by a supplementary budget of taxation and retrenchment presented in September 1931. The budget revealed that a fall in revenue of R. 19·55 crores was feared. The

[1] *Report of the Controller of the Currency for* 1930-31, p. 5.

position was so serious that economies and taxation were to extend to the end of the financial year 1932-33, and the result then anticipated was that the year 1931-32 would close with a deficit of R. 10·17 crores and the year 1932-33 with a surplus of R. 5·23 crores, leaving a net deficit of R. 4·94 crores. Thirdly, the exchange position was extremely unsatisfactory owing to slackness of trade and lack of confidence, which was responsible for the comparative failure of the sterling loan floated at the end of May 1931.

The position was sufficiently serious: exchange sagged to the lower gold point. On 27th June the Prime Minister promised support of the British Government to Indian credit and currency, but at that time the British Government was itself experiencing difficulty in maintaining its credit and currency on the gold basis. The flight from the rupee could not be checked, investment in Indian treasury bills on foreign account ceased, and there was a tendency to repatriate the funds already invested. As a last resort the Government of India had to sell nearly eleven millions sterling to maintain the rupee at the lower exchange point between the beginning of August and the 19th September.[1]

21st September, 1931. The 21st of September, 1931, will go down to posterity as one of the most important dates in the currency history of India and of many other countries. It was on that day that the world witnessed the divorce of the pound sterling from gold after a brief and unhappy union of over six years. It was on that day again that India had the uncommon experience of the promulgation of a Currency Ordinance. And it was on that very day that the Secretary of State for India announced the currency policy of India in terms which were not in accord with the Currency Ordinance. India was confused, but the confusion lasted only three days, which were observed as Bank holidays—an event again unprecedented in the annals of

[1] *Report of the Controller of the Currency for* 1931-32, p. 11.

Indian currency. On the 24th September, 1931, all speculation and suspense ended with the issue of the Gold and Sterling Regulation Ordinance of 1931.

Currency Ordinance of 1931. On 21st September the British Parliament passed the Gold Standard Amendment Act and the pound sterling departed from gold. On the same day the Government of India promulgated the Currency Ordinance of 1931 (Ordinance VI. of the year).[1] The Ordinance runs as follows:

'Whereas an emergency has arisen which makes it expedient that the Governor-General in Council should be relieved, while the emergency continues, of the obligation imposed upon him by Section 5 of the Currency Act, 1927, to sell gold or sterling when demanded at rates therein fixed, it is hereby enacted as follows:

(1) This Ordinance may be called the Currency Ordinance, 1931.

(2) Until the Governor-General in Council by notification in the *Gazette of India* directs to the contrary, Section 5 of the Currency Act, 1927, shall have no force.'

Since the Government was no longer under a statutory obligation to convert gold into rupees and rupees into gold or sterling, the rupee unless otherwise regulated could not have remained fixed at 1s. 6d. gold or sterling, but would have tended to find its own level in accordance with changed circumstances.

Government Policy. On the same day that the Currency Ordinance was issued, the Secretary of State for India informed the Federal Structure Sub-Committee in London that the policy of Government in regard to the position of the rupee was as follows:

'. . . for all practical purposes the stability of the Indian Exchange has been based on sterling. Indian trade is financed through sterling. The greater part of India's external obliga-

[1] *Gazette of India, Extraordinary*, 21st September, 1931, p. 227.

tions is in terms of sterling. To follow gold, and so increase the sterling value of the rupee at this juncture is, I am sure you will agree, out of the question. It has therefore been decided to maintain the present currency standard on a sterling basis. I am satisfied that this is the right course for India and is the most conducive to Indian interests.'[1]

The above policy being in conflict with the Currency Ordinance of 1931, that Ordinance, as we have seen, was repealed and another Ordinance was issued on the 24th September, 1931, called the Gold and Sterling Sales Regulation Ordinance.[2]

Indian and English Currency Legislation, 1931. It is significant that the Indian Gold and Sterling Sales Regulation Ordinance of 1931 is very similar to the English Gold Standard Amendment Act of 1931 in its main object of maintaining the sterling paper standard by strict regulation of dealings in foreign exchange and the consequent prevention of the export of capital by nationals. This is manifest from the following two extracts from official statements in regard to England and India:

'. . . . The Government has no reason to believe that present difficulties are due to any substantial extent to export of capital by British nationals. They desire, however, to repeat emphatically warning given by the Chancellor of the Exchequer that any British citizen who increases the strain on exchanges by purchasing securities himself or assisting others to do so is deliberately adding to the country's difficulties. . . .'[3]

'. . . There has been evidence for some time of a desire to convert rupees into sterling. The uncertain prospects of such action are illustrated by what has just taken place. Patriotic Indians, however, and all who are zealous for India's well-being and constitutional progress, must realise the

[1] Proceedings of Federal Structure Committee, Indian Round Table Conference (Second Session), 1932 (Cmd. 3778), p. 77.

[2] *Gazette of India, Extraordinary,* 24th September, 1931, pp. 229-30. See Appendix II.

[3] Extract from a statement issued by British Cabinet, 21st September, 1931.

importance of maintaining the stability of the currency. They can help by standing by the rupee themselves and by urging their friends to stand by the rupee as well. . . .'[1]

Indian and English currency legislation differed, however, in one material respect, inasmuch as sterling was completely free while the rupee was tied to sterling.

Control of Exchange. The immediate objective of Government policy was to maintain the sterling value of the rupee at 1s. 6d., the immediate danger being the fear that the Indians might lose confidence in the rupee and convert it into foreign exchange. The situation was met by Governmental control of exchange through discrimination in the sale of foreign exchange. The Imperial Bank of India was authorised to allocate exchange for certain definite purposes and to refuse the sale of exchange for other purposes. According to Ordinance VII. of 1931 sales of exchange were limited to (1) normal trade requirements, excluding the import of silver or gold coin or bullion and the liquidation of the over-sold exchange position of any bank in respect of any month subsequent to the month in which the demand for gold or sterling might be made; (2) contracts completed before the 21st September, and (3) reasonable personal and domestic purposes.

The Rules under the Ordinance (see Appendix II.) empowered a Managing Governor of the Imperial Bank to call upon any recognised bank to satisfy him (1) that it had not been selling foreign exchange for any purpose other than those specified above, and (2) that it had been using all its purchases of foreign exchange to cover its sales of foreign exchange before making a demand on the Imperial Bank for gold or sterling. In the event of a Managing Governor being not so satisfied, he was authorised to suspend the recognition of the bank up to seven days and report it

[1] Extract from Secretary of State's speech before Federal Structure Committee, London, 1932 (Cmd. 3778), p. 77.

immediately to the Governor-General in Council. It must be said to the credit of the exchange banks that they all 'readily co-operated in making this scheme of exchange control effective.' Government was able to stabilise the rupee at 1s. 6d. sterling, but was unable to satisfy public opinion.

Public Opinion. Public opinion, as voiced by several commercial bodies, was against the policy of linking the rupee to sterling. For instance, on the 6th October, 1931, the East India Cotton Association, Ltd., Bombay, at an extraordinary general meeting passed the following resolution:

'That this extraordinary meeting of the East India Cotton Association, Limited, strongly condemns the decision of the Secretary of State for India as well as the Government of India in linking rupee with paper sterling at 18d., inasmuch as this decision works against the interests of Indian agriculturists, commerce and industry in general, and cotton agriculturists in particular. This meeting, therefore, resolves that the rupee be left to seek its own value.'

Opposition to the New System. The introduction of the sterling exchange standard met with a strong objection from the non-official members in the Indian Legislative Assembly. They were naturally indignant that a momentous change in the Indian monetary system had been made by the executive without so much as consulting the legislature. But the Finance Member explained how an emergency had arisen in which immediate action was imperative and the previous public discussion of the measures was not possible.

Public criticism of the new system, however, was not merely sentimental, but was based on several serious considerations. In the first place, the union of the rupee with sterling involved the loss of its freedom for an uncertain and instable career. For this very reason the recent Royal Commission on Indian Currency had declared themselves

against a sterling exchange standard, for they apprehended that if ever sterling left the gold basis—which happened to be the case in September 1931—and began to depreciate, 'Indian prices would have to follow sterling prices to whatever heights the latter might soar, or, in the alternative, India would have to absorb some portion of such rise by raising her exchange. India has had experience of both these alternatives, and the evils resulting from them are fresh in her memory.'[1]

This leads to the second point, that in consequence of the depreciation of sterling—*i.e.*, the increase of the sterling price of gold—there was danger of the depletion of India's gold resources. Thirdly, India's import trade with countries which continued on the gold basis was placed at a disadvantage as compared with those which had departed from gold. With a rupee equal to 1s. 6d. sterling which bought less American or French gold currency than before, it became less profitable for an Indian importer to import goods from America or France which were still on the gold standard than, for instance, from England which had departed from it. In this connexion the following statement of His Majesty's Senior Trade Commissioner in India is both relevant and self-explanatory.

'The linking of the rupee to 1s. 6d. sterling could not fail to act as a powerful stimulus to India's exports to countries which are still on the gold standard, among which are some of her principal customers—*e.g.*, the United States, Japan,[2] Germany, France and Italy. Conversely, the depreciation of sterling now enables United Kingdom exporters to quote rupee prices below those which in many cases can be quoted by manufacturers and exporters in countries which still adhere to the gold standard, notably Germany, Japan and the United States, who may be regarded as our keenest rivals in the Indian market. Other

[1] *Report of the Royal Currency Commission*, 1926, p. 11.

[2] Japan departed from gold in December 1931, and Japanese goods have come into the country in very large quantities recently owing to the advantage in exchange.

things being equal, therefore, there should be in terms of rupees a considerable advance in the prices of India's principal agricultural products with a corresponding increase in the purchasing power of the people. This increased purchasing power may be expected to be reflected in a greater demand for imported goods. It is to be hoped that the United Kingdom manufacturer, by reason of this advantage in exchange, will take every opportunity to secure an increased proportion of the trade available.'[1]

The fourth and last point of criticism against the sterling rupee is of considerable importance; it was ably put by Mr. R. K. Shanmukham Chetty in the following words:

'The rupee is tied to the chariot wheels of sterling, and in relation to gold it must follow the fortunes of sterling. I do not anticipate that England will for ever remain off the gold standard. It may be that after six months or one year or two years England might think that the time had then come for her to go on a gold standard again, and if such a thing happened in England, we will also automatically go on the gold standard; with what consequence? Every country must restore the gold standard and fix its currency in terms of gold with due regard to the economic condition of that country. But under the present circumstances, irrespective of the economic conditions of India, irrespective of the intrinsic value of our currency, the moment the economic conditions in England become propitious for the linking of sterling to gold, we will automatically be linked to gold. That, I submit, is a danger the possibilities of which are far-reaching and the consequences of which I dread to imagine.'[2]

Sir George Schuster, on behalf of Government, made a reassuring statement regarding the preservation of the gold reserves of the country. He admitted that India was placed somewhat at a disadvantage in regard to her trade with gold standard countries, but he pointed out that she was assured of her trade with England. Moreover, her sterling obliga-

[1] *Report* of His Majesty's Senior Trade Commissioner in India on the United Kingdom Trade in India, 1931.

[2] *Legislative Assembly of India Debates*, 26th September, 1931, vol. vi., p. 1068.

tions—both recurring, which amounted to £32 millions a year, and non-recurring, which were £15 millions maturing on the 1st January, 1932, and another £7 millions later in the year—were too large to be ignored in determining her currency policy. The alternative to the sterling exchange standard was to let the rupee find its own level. 'On the one side there is the policy of drifting, a chance of seeing prices rise perhaps higher than they would have if we had remained linked to sterling, but the danger that in order to meet our recurring requirements we should have to draw on our resources, and on the other side the comparative stability of a sterling basis and the assurance of support from His Majesty's Government.'[1] But the comparative stability of sterling was disputed, and it was felt that the support of His Majesty's Government need not be dependent on the linking of the rupee with sterling.

Course of Exchange. Happily, however, sterling and hence the rupee did not depreciate so much as to justify all the fears of the opponents to the new system, whereas the maintenance of a 1s. 6d. gold value for the rupee would have been disastrous. But this does not alter the principle. Since August 1931 the British people themselves have not been allowed to know on what principles sterling is controlled.[2] The maintenance of a sterling exchange standard therefore means that Indian currency is under the arbitrary

[1] Sir George Schuster's speech in the *Legislative Assembly of India Debates*, 26th September, 1931, vol. vi., p. 1093.

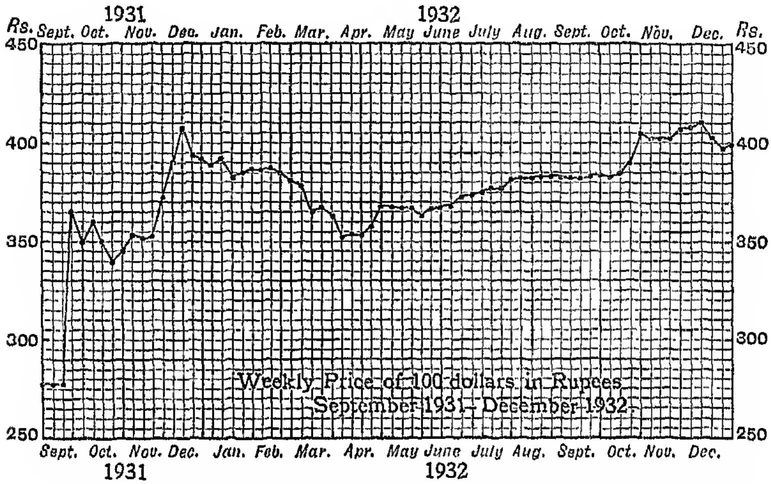
[2] Mr. Chamberlain (Chancellor of the Exchequer) in a speech in the House of Commons on the 11th March, 1932, remarked:

'I do not deny that speculation in the meantime is disturbing and possibly injurious to our trade, and I do not desire to see it continued any more than I desire to see the pound at this time taking up a position considerably higher than that at which it stood for some little time recently. . . .

'I have no hesitation in saying that we do not desire to see the pound forced up to a rate which will be injurious to industry, and I do not know if the hon. and learned gentleman really wished to ask me to say what was to be the ultimate policy, as I think it is apparent to the House that at this time it is not possible to say what is going to be the ultimate rate or the time at which it will be possible to stabilise the pound.'

control of unknown men in no way responsible to India, who do not even condescend to make any statement about their intentions with regard to its future purchasing power or gold value. This is not a situation with which India can be content.

The actual course of exchange may be seen at a glance in the diagram shown below.



[N.B.—The above diagram has been constructed from figures given in *The Weekly Market Review*, issued by Messrs. Premchand Roychand and Sons, Bombay, beginning 4th September, 1931. The figures for the 25th September and 2nd October are nominal.]

Effect on Indian Trade. The opinion of the Senior Trade Commissioner in regard to the effect of the sterling rupee on Indian trade has been given already. It is in strict conformity with economic theory. The more important thing, however, is to see how far it is in accord with actual facts. The table[1] on page 49 gives the index number of wholesale prices in Calcutta and Bombay, and shows that the steep fall in the commodity prices has been arrested.

Looking at the Indian trade returns, it is a matter of some satisfaction that the exports of merchandise during

[1] *Indian Finance Year Book*, 1932, p. 60.

	Calcutta (a).	Bombay (b).
April, 1928 - - -	146	142
April, 1929 - - -	140	144
April, 1930 - - -	123	134
April, 1931 - - -	98	110
May, 1931 - - -	97	106
June, 1931 - - -	93	108
July, 1931 - - -	93	108
August, 1931 - - -	92	107
September, 1931 - -	91	107
October, 1931 - - -	96	107
November, 1931 - -	97	107
December, 1931 - -	98	111
January, 1932 - - -	97	114
February, 1932 - -	97	113
March, 1932 - - -	94	112

(a) *Indian Trade Journal* (1914=100); (b) *Bombay Labour Gazette* (1914=100).

December 1931 showed an improvement over those in the preceding month. It is significant that no similar expansion had been recorded in December of any year since 1926, and it seems probable that part of this improvement might be due to the depreciation of the rupee in terms of gold.

At the same time there has also been some diversion of trade in favour of the British Empire and against foreign countries. If trade statistics are analysed for the year reckoned from the 1st October, 1931, it appears that India's imports from and exports to the Empire countries rose from 43·4 to 44·5 per cent. and from 40·8 to 46·7 per cent. respectively, while her imports from foreign countries fell from 56·6 to 55·5 and her exports from 59·2 to 53·3 per cent. In the same period, India's imports from and exports to the United Kingdom alone rose from 33·8 to 36·4 and 25·0 to 29·7 per cent. respectively.

Gold Exports. The outstanding feature of recent trade has been the unusual export of gold, which amounted to over 17 crores in December 1931 alone. An idea of the magni-

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tude of the gold exodus since the union of the rupee with sterling may be obtained from the following statistics:[1]

Month and Year.	Net Exports of Gold.
	R.
October, 1931	8,56,16,434
November, 1931	8,30,43,371
December, 1931	17,46,58,625
January, 1932	9,07,26,339
February, 1932	7,43,20,223
March, 1932	6,73,47,330
	57,57,12,332

A study of the foregoing table gives rise to two important questions. Why has gold left India in such large quantities? How does it affect the interests of the country?

Taking the first question, it is generally held that gold exports have been due to the marked rise in the value of gold. This, however, is only part of the explanation. The Indian people are so conservative by nature and their love for gold in the form of jewellery is so deeply ingrained by age-long tradition that the allurement of higher prices of gold by itself is not enough to draw out their hoards in any large quantities. That a large portion of the gold sales has been of melted ornaments and jewellery may be taken as an indication of the fact that the sales have been due to dire economic necessity. In other words, the bulk of the people are now living on their past savings or capital. That economic distress should have forced the Indian peasantry to part with so much of their jewellery is deplorable; that they should have obtained enhanced prices for it is a mitigation of their misfortune.

This leads to the second question as to how the gold exports affect India. On this opinion seems to be divided. But some of the advantages which accrued from the sale

[1] *Report of the Controller of the Currency for* 1931-32, p. 48. By the end of 1932 the total gold export exceeded R. 100 crores.

of gold are undeniable. In the first place, those who parted with their gold stood to gain by the favourable rates at which they sold it. In the second place, the export of gold tended to help in steadying the value of sterling and therefore the value of the rupee. This, however, would not have been necessary if the rupee were linked to gold. In the third place, the export of gold helped Government in paying off India's sterling debt of £15 millions and thereby raised India's credit. Last but not least, the folly of the undue regard for gold by countries which ought to know better had then begun to be realised. But so long as gold, for good or for evil, remained the basis of currency and credit structure, it would not do for India to deplete her gold resources to any appreciable degree.

Public criticism of the gold export was based on the fact that while by the Gold and Sterling Regulation Ordinance VII. of 1931, Government had intended to prevent the export of capital by nationals and the withdrawal of short-term funds by foreigners, this was to a certain extent set at naught by the unchecked gold exports and private withdrawal of foreign capital from India. According to the *Indian Finance*, 'Had the control over exchange been tightened, and Government obtained all the remittances resulting from gold exports and private merchandise account; and had they utilised the surplus over current Home Treasury requirements in the repayment of the external debt, there would have been some justification for Government's policy of *laissez faire*.'[1] If, on the other hand, gold exports had been totally prohibited and gold had been bought by Government freely at prices based on the London-New York cross rate, 'the net effect was bound to have been a considerable accession of strength to the Reserve position. The advantages of this policy from the point of view of future monetary reform are obvious, as it would have enabled the

[1] *Indian Finance Year Book*, 1932, p. 43.

Government to establish the Reserve Bank with ample resources at any time they think it fit to do so.'[1] Government's objection to the adoption of such a course—the *Indian Finance* called it a 'theoretical objection'—was that 'the currency authority should not acquire gold at a higher price than that fixed by statute, and that any purchases in contravention of this rule would amount to an unwarrantable speculation in gold.'[2]

Gold and Government Finance. In the foregoing discussion, one point requires separate elaboration, as it has failed to receive *adequate* attention. The matter relates to the part gold exports have played in financing India's external liabilities, and will be manifest from an examination of the following trade statistics for the last three years. These statistics, even at a glance, make sad reading, but a little analysis will reveal that they are much worse than they at first sight appear.

(In lakhs of rupees.)

Imports.	1929-30.	1930-31.	1931-32.
Private Merchandise	2,40,80	1,64,79	1,26,37
Gold and Silver	27,60	26,71	7,22
	2,68,40	1,91,50	1,33,59
Exports.			
Private Merchandise	3,17,93	2,25,64	1,60,55
Gold and Silver	1,48	2,31	62,61
	3,19,41	2,27,95	2,23,16

The total imports of private merchandise in 1931-32 were less by R. 38 crores (23 per cent.) as compared with 1930-31 and by R. 114 crores (47 per cent.) as compared with 1929-30, while the exports were less by R. 65 crores (29 per cent.) than those in 1930-31 and by R. 157 crores (49 per cent.) than

[1] *Indian Finance Year Book*, 1932, p. 43. [2] *Ibid.*

those in 1929-30. Thus both imports and exports—the latter more than the former—were nearly halved in three years, with the result that the excess of Indian exports over imports was more than halved; it fell from R. 77,13 lakhs in 1929-30 to R. 60,85 lakhs in 1930-31, and to R. 34,18 lakhs in 1931-32.

This was a very serious matter for India. As is commonly known, she has every year large sterling liabilities to meet, but her excess of exports of private merchandise over imports in the past used to be adequate not only to meet these liabilities, but also to satisfy her annual demand for the precious metals. If the latter had but remained at the same figure in 1931-32 as it stood in 1930-31 or 1929-30, India could not have met all her sterling liabilities without recourse either to the use of the Gold Standard Reserve or to the raising of sterling credits or both.

As it happened, during 1931-32, not only did India practically give up her usual demand for gold, but she commenced parting with the yellow metal in unheard-of quantities. In 1929-30 and 1930-31 her net takings of gold and silver amounted to R. 26 crores and R. 24 crores respectively. In 1931-32 her net givings were to the extent of R. 57 crores —involving a total sacrifice of R. 81 crores, if compared with 1930-31, and of R. 83 crores, if compared with 1929-30.

Thanks to this unique change in India's attitude towards gold, the visible balance of trade in India's favour, at the end of the financial year 1931-32, amounted to R. 90 crores as against R. 51 crores in 1929-30 and R. 37 crores in 1930-31. Government was able to satisfy all sterling obligations with perfect ease: the position from this point of view looked extremely satisfactory.

But there is another way of looking at the picture. Until 1930-31 the Indian trade position was such that her normally favourable trade balance was made up of large exports of private merchandise; since 1931-32 the position is that her

abnormally favourable balance is made up of large exports of gold which have filled the place of private merchandise of a corresponding value. Granting that gold is also a commodity and gold exports *per se* need not be undesirable, the position is not that exports of private merchandise are being maintained at the old level and *in addition* gold is being exported. The position is that both imports and exports are at a much lower level than before, and gold exports are for the time being masking an otherwise extremely unsatisfactory state of affairs.

This is an impossible situation. How long can it last? Assuming that the price of gold will continue to be high—although by no means a certain proposition—the gold holdings of the people which economic forces can compel and high profits can tempt them to part with are not unlimited. Gold exports are at best only postponing the evil; when they cease, and it should not be very long before they cease, a situation of the gravest character will arise, if things are allowed to drift in the mere expectation of international action leading to world prosperity.

Cancellation of Ordinance VII. While the gold exports have attracted so much public attention, the cancellation by Government of Gold and Sterling Regulation Ordinance VII. of 1931 on the 31st January, 1932, has passed almost unnoticed. This means that the Currency Act of 1927 has again come to life, but so long as sterling is not on the gold basis, there is no change in the monetary standard which continues to be the sterling exchange standard. The object of the cancellation of the Ordinance presumably was to allow free transactions in exchange and to facilitate the export of gold from India.

CHAPTER III

THE MONEY MARKET (A), 1926-32

1. INDIGENOUS BANKERS.[1]

Meaning of Indigenous Bankers. The term 'indigenous bankers,' or 'indigenous banks,' is commonly used to imply all kinds of private bankers and moneylenders or banking and moneylending firms. In my book on *Indigenous Banking in India* (pp. 1-3), the distinction was made for the first time between 'bankers' and 'moneylenders'—a distinction which has been utilised by the Indian Central Banking Inquiry Committee, 1929-31, in its report (para. 107). The term 'banker' is taken to mean any individual or private firm which, in addition to making loans, either receives deposits or deals in *hundis*,[2] or both, each of which functions clearly belongs to the province of banking, while the term 'moneylender' is used for any individual or private firm which makes loans, but does not usually receive deposits or deal in *hundis*.

Moneylenders, again, must not be confused, as they sometimes are, with mere investors. If a person deposits his savings in a bank or lends for use, not as a regular business but merely to add to his principal income from other sources, he is not a moneylender but a mere investor. On the other hand, if a person lends his funds in order to earn interest

[1] Some, but only some, of the matter of this section is based on my *Indigenous Banking in India*, London, 1929. The rest is entirely new material, most of which was collected by me during 1929-30 as Secretary of the United Provinces Banking Inquiry Committee. I am indebted to Government for permission to use it.

[2] The *hundis* are Indian bills of exchange.

as a regular business, he is a moneylender. There is thus a distinction between an 'investor' and a 'moneylender' which must be kept in view, although it may well be that the former may and does at times merge into the latter.

Numbers and Distribution. Bearing the above distinctions in mind, the question of the number of bankers and moneylenders and their geographical distribution is of great interest and importance, though actual statistics are not available. In the Indian Census the classification according to occupations contains no separate groups entitled 'bankers' and 'moneylenders.' All that we find are the statistics of the total numbers (including employees) engaged in banking, moneylending, and allied activities. Bank managers, moneylenders, exchange and insurance agents, money-changers and bankers, are enumerated in one group. The provisional numbers of this group for 1931 are 329,482.[1]

The recent provincial banking inquiry committees might have produced some reliable data, but in this respect their reports are generally disappointing. Such statistics as these committees have been able to collect for the various provinces are hardly comparable, since the estimates are not arrived at on one basis. Nevertheless, the table[2] on page 50 is not without some interest.

Structure and Organisation: Classification. The indigenous bankers and moneylenders lack the organisation of modern banks. Broadly speaking, it may be said that they have no comprehensive organisation at all. They have developed gradually, and their development has varied in accordance with the local requirements, habits, customs and traditions in different parts of the country.[3] They defy a clear-cut classification, but if they must be classified there are two

[1] The new *Census Report* is not yet published. I am indebted for this tentative figure in advance to the Census Commissioner.

[2] *Report of the Indian Central Banking Inquiry Committee*, 1931, pp. 72 and 94.

[3] *Bombay Provincial Banking Inquiry Committee Report*, 1920-30, para. 253.

Province.	Bankers.	Moneylenders.	Population, 1931.[1]
Assam - -	—	—	8,622,251
Bengal - -	A few	45,000 (*b*)	50,122,550
Behar and Orissa	—	100,000 (besides about 700 *Shroffs* and urban moneylenders paying income-tax and many more not paying it)	37,590,356
Bombay - -	—	20,000 (including bankers)	22,259,977
Burma - -	16,500 Chettiyar offices	—	14,665,618
Central Provinces	One firm habitually receiving deposits	43,000 (*b*)	15,472,628
Madras - -	—	—	46,748,644
Punjab - -	66 based on income-tax figures	55,000	23,580,851
United Provinces -	250 (including seven firms working on modern lines)	—	48,408,763
Ajmer Marwara -	29(*a*)	100 (bankers and moneylenders paying income tax)	560,292
Delhi - - -	43 (*a*)	100 (bankers and moneylenders paying income tax)	636,246
North-West Frontier Province	29 Hindus and many Muslims	100 (bankers and moneylenders paying income tax)	2,425,076

N.B.—' — ' indicates that no information is available.
(*a*) Not reliable as the definition of the term 'banker' is not observed.
(*b*) Estimate based on Census statistics of the group bankers, etc.

ways in which a classification may be attempted: (1) according to their clients, and (2) according to their business.

Taking the first basis first, both bankers and moneylenders may be divided into two classes: (1) *urban bankers* and *urban moneylenders*, or those who do business mainly with the townsfolk, and (2) *rural bankers* and *rural moneylenders*, or those who do business mainly with the villagers.

On the second basis, *i.e.* according to their business, bankers may be subdivided into (1) bankers (including

[1] *Supplement to the Gazette of India*, 19th September, 1931, pp. 562-3.

the *Shroffs* of Bombay) working on antiquated lines, and (2) bankers working on modern lines.

To classify moneylenders according to their business is not easy, but taking into account their principal work, they may be broadly divided into seven categories:

'(1) *Pakka moneylenders*, or those who advance on the security of registered documents—*e.g.*, mortgage deeds.

(2) *Kachcha moneylenders*, or those who advance on the security of other than registered documents—*e.g.*, promissory notes.

(3) *Pawnbrokers* and *goldsmiths*, called *choksis* or *sarrafs* in Bombay, or those who lend against ornaments and valuables. Pawnbroking is a monopoly of the Chinese in Burma and is largely practised by women in the United Provinces.[1]

(4) *Qistias*, or those who lend on the instalment system (including petty *qistias*, giving day-to-day loans called *rozai*).

(5) *Military moneylenders*, or moneylenders for military regiments.

(6) *Pathans, Kabulis, Rohillas*,[2] *Aghas* or *Moghuls, Harias* or *Tharakkars*,[3] *Atiths, Gossains* or *Nagas*[4]—all itinerant moneylenders.

(7) *Casual* and *amateur moneylenders*, or those pursuing other occupations and lending only surplus money—*e.g.*, pensioners, widows,[5] labourers.'[6]

Interconnexion. The interconnexion between these various kinds of bankers and moneylenders is very slight. Usually they work independently of one another. Important bankers have branches in different parts of their provinces and even outside them. The branches are in charge of *munims* or agents, whose honesty and integrity are proverbial.[7] These *munims* act as links between their

[1] I was struck by the large number of women pawnbrokers in the districts of Meerut, Mozaffarnagar and Saharanpur which I visited.

[2] *Central Provinces Banking Committee Report*, 1929-30, para. 591.

[3] In the United Provinces.

[4] *Behar and Orissa Banking Committee Report*, 1929-30, para. 60.

[5] *Bengal Banking Committee Report*, 1929-30, para. 404.

[6] Ex-coolies in Assam regularly lend money. (*Assam Banking Committee Report*, 1929-30, para. 32-e.)

[7] *U.P. Banking Committee Report*, 1929-30, para. 420. The Central Provinces Committee, however, observe in their report (para. 1946) that

employers and the mofussil money markets, in so far as the two have any links at all.

But if regular links in the chain of indigenous credit agencies are lacking, it is significant that their place is often taken by ties of communal brotherhood or blood relationship, and the bankers and moneylenders are more closely knit together than they outwardly appear. The *Vaishya, Marwari* and Jain bankers, for instance, are ready to help the members of their fraternity at all times. In Burma 'each Chettiar business is owned by a partnership of closely related persons and managed by an agent. The partners are commonly related to one another through their wives, people who are related directly being more likely to set up separate firms.'[1] It need hardly be added that a Chettiyar[2] firm always comes to the rescue of a sister firm in difficulty.

Modern Associations. While the bankers and moneylenders all act independently, it is interesting to note that in modern times[3] they have formed a few associations which, within limits, are doing good work. In Bombay, for instance, they have several well-organised associations—viz., the Bombay *Shroffs'* Association, the *Marwari* Chamber of Commerce, the Commission Agents' Association and the Multani Bankers' Association. In Rangoon also there is a *Marwari* Association,[4] while Delhi has a Bankers' *Panchayat* (Association) which meets at the house of Lala Shrikrishna Gurwala, although he has ceased to be a banker.[5]

Functions and Methods. The functions of a moneylender,

they heard complaints that the *Munims* 'take a certain portion of the monoy lent as commission and also do not enter all repayments in their books or give receipts.'

[1] *Burma Banking Committee Report*, 1929-30, para. 458.

[2] *Chettiyar* is only the honorific plural of *Chetti*. The *Chettiyars* of Burma are Nattukottai Chettis from the Ramnad district of the Madras Presidency. They have their agents in more distant countries than Burma also.

[3] For ancient guilds see my *Indigenous Banking in India*, pp. 39-40.

[4] *Burma Banking Committee Report*, para. 428.

[5] *Centrally Administered Areas Banking Committee Report*, 1929-30, para. 209.

generally speaking, consist in making advances. He lends money, corn, seeds, or cattle to agriculturists, or to persons connected with land, on the security of produce or other movables or of immovables, or on no security other than personal. He often makes advances against standing crops. He also lends in cash or kind to persons other than agriculturists. An indigenous banker, in addition to carrying on the operations of a moneylender, receives deposits, either on current account or for fixed terms, on which he allows interest, gives cash credit and deals in bills of exchange. Some bankers who work on modern lines even issue pass-books and cheque-books and cash and collect cheques, but usually the cheques are of local validity only.[1]

The share of the indigenous credit agencies in financing large-scale industries is small, and in financing foreign trade still less, but they are largely responsible for financing agriculture, internal trade, and the small industries of the country. Furthermore, some bankers act as Government Treasurers, as Treasurers of Indian States and as Treasurers and disbursing agents of the railways.[2]

As regards the methods of finance, they are fully set out in my book on Indigenous Banking, and their repetition here would serve no useful purpose. But a few new facts and recent tendencies may well be noted. Usually the bankers finance industrial concerns, in so far as they finance them at all, by (1) taking debentures, (2) subscribing to the share capital, (3) advancing against the security of shares, and (4) giving long-term loans against whole or part of the property or goods.[3] Trade is financed by means of cash, and less often by the drawing and discounting of *hundis*.

[1] In Behar and Orissa some bankers working on old-fashioned lines also issue indigenous pass-books called *chithas* on which the accounts of the depositors are entered from time to time. (*Behar and Orissa Banking Committee Report*, para. 376.) I have noticed the practice in the United Provinces as well.

[2] *Central Areas Banking Committee Report*, para. 198.

[3] *Bombay Banking Committee Report*, para. 262.

The latter is the principal business of the *Kallidaikurichi* Brahmans in the Madras Presidency, of the *Multanis* in the Madras and Bombay Presidencies, and of the *Marwaris* and *Gujratis* in Burma. A considerable portion of the internal trade in those areas is financed in this way.

In their methods the Nattukottai Chettis or Chettiyars of Burma and Madras seem to be the most advanced of all bankers in the country. According to the report of the Burma Banking Committee (para. 492), the Chettiyars receive from their customers both current and fixed deposits, and give to the current depositors either deposit receipts or demand promissory notes. In addition a pass-book is usually given in which sometimes the entries are made by the customer himself and subsequently initialled by the Chettiyar. In the more important towns cheques are issued and used for making payments, and there is no difficulty in their encashment, if arrangements with the bankers are made beforehand. In the absence of previous notice the current practice with the Chettiyar is to mark, date and initial the cheque and return it to the presenter for a second presentation on the following morning or afternoon, when it is invariably paid. Since the 11th June, 1930, the Chettiyars have even adopted the modern system of clearing cheques drawn upon them. From that date the Bank of Chettinad has obtained access to the clearing facilities provided by the Imperial Bank of India.[1]

The methods of moneylending are varied. 'Rates of interest, documents, incidental charges, the manner of renewal or repayment, all vary and not only in one direction. They vary with the idiosyncrasies of the moneylender himself, with the circumstances of the debtor, with the nature of the security, with the locality.'[2] Small loans may be had on a mere entry in the lender's *bahikhata*

[1] *Burma Banking Committee Report*, para. 494.
[2] *U.P. Banking Committee Report*, para. 203.

(account book) or on no entry at all, but a verbal promise occasionally backed by an oath. This latter system is called *dadan*[1] in Bengal and *hath-udhar* in most places. But *qistbandi* loans, or loans on the *kandu* or *qist* or *thandal* system, as they are variously known in the Madras Presidency, have usually bonds of their own.[2] As the amount of loan increases and greater security is sought, promissory notes or unregistered bonds, registered bonds and mortgage deeds are executed. These, however, are matters of common knowledge, and their details[3] need not detain us. But a few words may be permitted in regard to the interesting institution of pawnbroking.

Pawnbrokers. The pawnbrokers in India are as old as the institution of ornaments itself, and they are spread all over the country. It is an all-embracing trade which knows no climate, sect or sex; its votaries exist everywhere, because they satisfy a universal social want. The customers are similarly drawn from all classes of people—Indians and Anglo-Indians,[4] Hindus and Mahomedans, agriculturists and non-agriculturists.

The organisation of pawnshops seems to have found its perfection in Burma, where they are worked mostly by Chinamen under licences which are generally sold by auction. The licensees are often paid employees and representatives of a syndicate of Chinese capitalists who sometimes own shops in more than one town. Some idea of the magnitude of the business may be obtained from the fact that the licence fees in 1928-29 amounted to R. 10,92,000. The licensees borrow capital at 15 to 18 per cent. per annum, and charge interest for loans up to R. 5 at one anna per rupee per month, which is equal to 75 per cent. per annum,

[1] *Bengal Banking Committee Report*, para. 408.

[2] An illustration of such bonds is given in *Indigenous Banking in India*, pp. 64-65.

[3] *Ibid.*, pp. 55 *et seq.*

[4] Particularly in the Presidency towns. There are several pawnbrokers' institutions in the Anglo-Indian quarters in Calcutta. (*Bengal Banking Committee Report*, para. 206.)

for loans above R. 5 and up to R. 20 at nine pies per rupee per month—*i.e.*, $56\frac{1}{4}$ per cent. per annum, for loans above R. 20 at six pies per rupee per month—*i.e.*, $37\frac{1}{2}$ per cent. per annum. A part of a month is always counted as a full month, the English calendar being in general use. As the Burmese masses find the use of their own months more convenient, the Burma Banking Committee suggests the adoption of Burmese months in place of the English.[1]

Bankers and Moneylenders and Modern Banks. With regard to their methods, indigenous bankers and moneylenders may be distinguished from modern banks in at least two respects. First, both indigenous bankers and moneylenders combine other businesses[2] with banking or moneylending. The notable exceptions are the *Nattukottai Chettis* of Madras, the *Multani* bankers of Sindh and Bombay and the *Chettiyars* of Burma. Secondly, neither the bankers nor the moneylenders in their business stand on any formalities at all. They are willing to accommodate their customers on any day in the week and at all hours of day and night. The indigenous banking holidays in India are fewer than in any country in the world; they are confined to three days in the year which mark the three greatest Hindu festivals —viz., *Daṣehra, Diwali* (Bankers' New Year's Day) and *Holi* —and fall in the months of September or October, October or November, and March respectively. The pleasant manners, alertness and personal interest of the bankers and moneylenders alike are invaluable assets which are lacking in the case of modern Indian joint-stock banks.[3]

Bankers and Moneylenders and Indian Joint-Stock Banks. The rural moneylenders have no connexion at all with the

[1] See *Burma Banking Committee Report*, paras. 567-76, on which the above account is based.

[2] There are a host of these allied businesses—*e.g.*, trade and commerce, dealings in grain or gold, etc. (See *Indigenous Banking in India*, pp. 43-45.)

[3] On the other hand, the Punjab Banking Committee remark that the indigenous bankers are not as prompt in their methods as a bank. (*Report of the Committee*, 1929-30, para. 188.)

Indian joint-stock banks. The relations of the bankers and urban moneylenders with the joint-stock banks vary in different places in accordance with different circumstances. More often than not they are rivals in business. The bankers and moneylenders go to the banks only as a last resort, when their own resources are exhausted and other bankers will give no further credit. The bankers complain that the banks, including even the Imperial Bank of India, do not treat them as 'bankers' but as mere ordinary customers, that they allow them neither preferential rates nor sufficient accommodation for their status, and that annoying inquiries are secretly made respecting their credit position. The banks, on the other hand, urge that it is very difficult for them to distinguish between a genuine banker and a mere trader or speculator, or to assess the true financial position of a banker, when he does not publish a balance sheet or refuses to disclose his accounts.

Decline of Indigenous Banking, 1926-32. It is significant that during the period 1926-32 the indigenous bankers and moneylenders appear to have fallen on evil days. Their decline is a slow process and therefore not very obvious, but various causes—both old and new—have combined, and there are clear indications that the decline of indigenous banking has begun. In the first place, the bankers and moneylenders have had continually to labour under various difficulties—legal and otherwise. They may be responsible for some of them, but such difficulties, nevertheless, act as a discouragement to their trade. The main difficulty is with regard to the repayment of loans. Legal recovery of debt is admittedly expensive. Not only are the court expenses high, but the process of execution of the decree is both lengthy and costly. This is not all. Some Acts of the Indian legislature passed with a view to protecting the borrowers' interests have, in actual practice, operated to the hardship of the lenders. Cases are not

wanting in which the borrowers borrow funds with no intention of repaying them, and take shelter behind the Insolvency Act. Again, bankers and moneylenders hesitate to lend to the people protected by the Bundelkhand Land Alienation Act, because it is not easy to realise their dues from such borrowers. Last, but not least, indigenous bankers are without the legal facilities permitted under the Bankers' Evidence Act.

In the second place, the competition of other credit agencies affected the indigenous bankers and moneylenders more seriously during 1926-32 than perhaps in any preceding period. It has already been noted that the joint-stock banks and the Imperial Bank of India do not recognise the indigenous bankers as such, and that the latter depend, for the most part, on their own resources. Both the expansion of joint-stock banking by the opening of 100 new branches by the Imperial Bank of India[1] (between 1921 and 1925), and the expansion of co-operative credit societies from 80,182 to 106,166 between 1925 and 1931,[2] have tended to depress the activities of the bankers and moneylenders in the period under review. To give only one illustration, the competition of the new branches of the Imperial Bank has been keenly felt by the indigenous bankers in the *mandis* (marts) of Khurja, Hapur and Hathras.[3]

In Burma there has been no decline in the Chettiyars' business, but competition has arisen not so much from modern joint-stock or co-operative banks as from the Indian and Chinese moneylenders of the old type. There is no town in Burma without an Indian, and he represents all races including Gurkhas in Maymyo and the north.[4] ' In the last twenty or thirty years Chinese lenders have appeared practically all over the country, in towns and in villages,

[1] See below, p. 118.
[2] See below, p. 74.
[3] *Centrally Administered Areas Banking Committee Report*, para. 211
[4] *Burma Banking Committee Report*, para. 559.

and now lend a considerable amount either as ordinary moneylenders or as pawnbrokers. Nearly all pawnbroking is done by Chinese; and the number and business of pawnbrokers have increased rapidly in the last twenty years, *particularly so in the last eight or ten.*'[1]

The relationship between the bankers and moneylenders, on the one hand, and the borrowers, on the other, has for some years undergone a perceptible though gradual change for the worse. This is partly owing to the rise and expansion of new credit agencies and partly owing to changes in the legal system. The strict administration of justice often harms the creditor, and the old *panchayat* system with all the *esprit de corps* and solidarity of the village life that it implied has degenerated. The recent nationalist movement, by increasing the general consciousness of the people, and the present economic depression, by reducing their capacity to repay old debts, while increasing the burden of such debts, has had the effect of setting the debtors against the creditors. This is shown by an increase in crimes against the property and persons of moneylenders at a time when the cult of non-violence has been most widely preached in the country. In the Punjab, where the moneylenders are mostly Hindus and the borrowers are mostly Mahomedans, the recent communal animosity has to some extent aggravated the action of purely economic factors in widening the gulf between the private creditors and their customers.

This estrangement between borrower and creditor means not only loss of business to the latter, but threatens to strike at the very foundations of the old village economy in which the moneylender has hitherto played such an important and indispensable part. The increasing desire on the part of the borrowers to loosen the moneylenders' hold is manifesting itself, but so is also the consequential endeavour on the part of the creditor to stiffen that hold in

[1] *Burma Banking Committee Report*, para. 559. The italics are mine.

various ways. That the bankers and moneylenders are losing ground in spite of all their efforts is now obvious to the students of Indian banking. What is less clear to many, and therefore needs emphasis, is the change which is taking place in the methods of business of these private credit agencies—a change sometimes for the better and sometimes for the worse.

Informality, which used to be the main virtue of an indigenous lender, is giving place to formalities which the borrower does not like. The peripatetic moneylenders in Bengal who at one time lent on mere verbal promises to pay are now seen using printed books containing pro-notes in English on which the signature or thumb impression of the borrower is taken.[1] In many places the village *sowcar* has been replaced.

On the other hand, in some areas, the practice of lending money on the security of standing crops has now practically disappeared.[2] Further, loans are generally issued and repaid in cash. The system of repayment in kind is fast dying out.[3] Above all, some bankers are shedding their out-of-date methods and beginning to work on modern lines. They transact all kinds of business which a modern joint-stock bank does—*e.g.*, issue pass-books and cheque-books, cash cheques, collect and discount bills, etc. There are seven such modern banking firms in the United Provinces,[4] while the movement has had a striking illustration in the Madras Presidency in the registration of the Bank of Chettinad in September 1929. It has been started with a subscribed capital of R. 2 crores and a paid-up capital of R. 1 crore and has already established about forty branches in India, Burma and Ceylon. According to the Madras Banking Committee Report (para. 58), 'The object of the

[1] *Bengal Banking Committee Report*, para. 409.
[2] *The Central Provinces Banking Committee Report*, para. 2043.
[3] *Ibid.*, paras. 2039-42.
[4] *United Provinces Banking Committee Report*, para. 135.

promoter of the bank is to adapt the indigenous system of conducting banking business as far as possible to the joint-stock system of banking on up-to-date and right channels, and vest the management and control and direction in the hands of skilled experts in the community to infuse greater public confidence, to avoid evils incidental to individual ownership and management and to establish the enormous advantages resulting from a proper periodical audit on up-to-date lines.'

2. LOAN OFFICES, NIDHIS AND CHIT FUNDS.

Loan Offices. In addition to the indigenous bankers, there are some old banking institutions—viz., Loan Offices, *Nidhis* and Chit Funds—which come in between the ancient bankers and modern banks. The loan offices in Bengal date from as early as 1865. They are registered under the Indian Companies Act and are owned and managed mostly by the Bengalis.[1] Their number has almost doubled during the last five years: it was 506 on the 31st March, 1927, and 1,008 on the 31st March, 1931. During 1930-31 their total authorised capital amounted to R. 86,37,53,000, of which R. 7,28,16,828 was issued and only R. 3,81,02,980 was paid up.[2] There are not even two dozen loan offices with a paid-up capital of R. 1 lakh or more; most of them have very small paid-up capital and the reserve fund in the case of newly-opened offices is strikingly low. No loan office has issued debentures, funds are attracted by deposits only.[3] Interest on deposits varies from 4 per cent. on short-term deposits to 8 per cent. for seven-years deposits, the usual maximum period being five years.

The memoranda of Associations of the loan offices are known to include almost every conceivable item of business,

[1] *Bengal Banking Committee Report*, para. 74.
[2] *Annual Report on the Administration of the Indian Companies Act, 1913, etc., in Bengal for 1930-31*, p. 52.
[3] *Bengal Banking Committee Report*, para. 438.

but it does not follow that all businesses are actually transacted. 'In a broad sense, all loan offices are banks, as they attract deposit from the public and lend money. But in a narrower sense, many of the loan offices are merely joint-stock organisations for lending money, not to trade and industry, but chiefly to landlords and tenants, often for unproductive purposes.'[1]

The main function of a loan office is to make advances to *zamindars* as well as actual cultivators against mortgages and ornaments or on personal security. New companies charge interest from 12 to 56¼ per cent. on secured loans and 12 to 112 per cent. on unsecured loans; old companies charge considerably less than the preceding maxima.

Nidhis. The *nidhis*, like the loan offices, go back to the middle of the nineteenth century[2] and are all registered under the Indian Companies Act—a few as banks and the rest as *nidhis*. On the 31st March, 1929, there were 228 *nidhis* in the Madras Presidency,[3] which is their principal home. Their working capital is about R. 4 crores, consisting of R. 2½ crores as share capital and R. 1½ crores as deposits and reserve fund.[4]

Nicholson has put *nidhis* and chit funds together, but they are distinct from each other.[5] The *nidhis* approach to banks receiving deposits and making loans, while the chit funds are merely associations for receiving subscriptions and lending among themselves.[6]

The main functions of the *nidhis* are to facilitate savings, relieve members from old debt, and grant loans for all purposes on good security.[7] Loans are given even to non-members, provided the funds permit. Generally the *nidhis* lend on share capital up to 90 per cent. of the paid-up share

1 *Bengal Banking Committee Report*, para. 75.
2 *Madras Banking Committee Report*, 1929-30, para. 72.
3 *Ibid.*, para. 438.
4 *Ibid.*, para. 440.
5 *Ibid.*, para. 74.
6 *Ibid.*
7 *Ibid.*

capital, to 90 per cent. of deposits, to 50 per cent. of the value of jewels and 80 or 90 per cent. of the value of gold or silver ornaments, to 75 per cent. of the value of goods stored in godown and to 90 per cent. again of the value of Government paper.[1]

Usually the rates of interest charged are low—*e.g.*, 6¼ per cent.—but high penalties are exacted on repayments after due date, which is a fruitful source of income.

Chit Funds or Chits. Somewhat analogous to the *nidhis* are the *Chit Funds* or *Chits*, called *kuries* in Malabar. They are to be found mostly in Travancore State and in the neighbouring parts of the Madras Presidency. They illustrate a very old method of raising money. A number of persons combine to make periodical payments to one of them who is the promoter of the *chit* and takes the first collection in full as his remuneration. Each successive collection is given to one of the members of the *chit* on a number of interesting plans,[2] the simplest being the system of rotating lottery in which the members take the amount in rotation, the order being decided by lots.

Chits deal not only in rupees, but sometimes for commodities like nuts, etc. For instance, 'they are run at the shandies among the old women who sell vegetables and make a contribution weekly, each in turn getting the pool to supply her with capital to buy the meagre stall of vegetables which she takes to the market.'[3] While no one knows the exact number of *chits* of various kinds, there is no doubt that they run into thousands.

The *chits* are open to many malpractices. A number of them fall in the category of a mere lottery with an appeal to the gambling instincts. Sometimes promoters of *chits* are unscrupulous and cheating and fraud naturally ensue.[4]

[1] *Madras Banking Committee Report*, para. 442.
[2] For details see *Ibid.*, para. 482.
[3] *Ibid.*, para. 483.
[4] *Ibid.*, paras. 487-91.

3. CO-OPERATIVE CREDIT SOCIETIES.

Meaning of Co-operation. The essence of the co-operative movement is the organisation of the members into one fraternity by ties of common weal and interest, with a view to promoting thrift and self-help among themselves and to enable them to pool their credit and to minister to the financial needs of one another. The members are their own borrowers and lenders. Germany, France and Italy, until the latter half of the nineteenth century, were face to face with the same problems of rural credit which are oppressing India today. The co-operative credit societies in those countries not only freed the peasant from the clutches of the moneylender, but organised rural credit on a sound basis. That very movement was introduced in India in 1904, when the first co-operative credit societies Act was passed.

Three Stages. The development of co-operation in India may be said to fall in three main stages—viz.: (1) 1904-12, during which the movement was in its infancy and was confined purely to credit; (2) 1912-19,[1] during which the movement, in the first place, widened its scope for several forms of non-credit activities although credit still continued to occupy the position of the greatest importance, and, in the second place, made various improvements like the opening of provincial banks[2] as a result of the far-reaching recommendations of the Maclagan Committee of 1915; and (3) since 1919, in which year, consequent on the passing of the Government of India Act, co-operation became a transferred subject in the provinces under Indian Ministers who have evinced keen interest in the development of the movement. As conditions vary from province to province and each province has its own Minister in charge of co-operation, a

[1] The Indian Banking Committee splits this period into two—*i.e.*, 1912-15 and 1915-19 (*vide* paras. 150-1 of the Committee's report).

[2] The only province without a provincial bank is the United Provinces

review of the working of the movement during the period 1926-31 is attempted below according to provinces separately. But to assist the process of clarification, a brief description of the existing co-operative machinery is given first.

Co-operative Machinery. The co-operative credit institutions are of two types: (1) those which provide short-term and intermediate credit, and (2) those which provide long-term credit. The second type deserves special treatment and is dealt with later in the chapter. Taking the first type, there are three links in the chain—viz., primary societies, central banks and provincial banks.

The primary societies are associations of borrowers and non-borrowers—all residents of one locality—mostly shaped on the Raffeisen model with the principle of unlimited liability which makes the members vigilant and serves to protect the creditors.[1] Any resident of a village whom his fellow-members regard desirable can become a member. In the Punjab and the United Provinces and to a great extent in Madras and Burma the members of primary societies contribute a small share capital; in other provinces share and non-share societies flourish side by side. The societies are expected to raise local capital which may be supplemented by small advances by the State, deposits from non-members and loans from central and provincial banks.

A Central Bank or a Banking Union[2] is the federation of co-operative primary societies in a specified area and is

[1] The loss in a co-operative society falls *firstly* on the member, *secondly* on his sureties, *thirdly* on the reserve, *fourthly* on the share capital and *fifthly* on the unlimited liability of the members, and *finally* on the creditors of the society. (*The Law and Principles of Co-operation,* by H. Calvert, Calcutta, 1926, p. 40.)

[2] 'Historically speaking, the appellation "Central Bank" is used when the central society admits as its members not only primary societies, but also individuals. The phrase "Banking Union" is used when membership is confined to societies only and individual members are excluded. In practice the differentiation is gradually disappearing and individuals are to be found as members in most co-operative banks everywhere.' (*Indian Banking Committee Report,* 1931, para. 157.)

usually located at an important town in a district. Central banks have on their boards of management influential business men besides representatives of primary societies, and today they constitute an important factor in the Indian money market. Their main function is to finance the primary credit societies and act as balancing centres to them. As a rule they do little commercial banking. Their resources comprise their own capital and deposits of various kinds, overdrafts, and short-term loans from the Imperial Bank of India and joint-stock banks, and loans and advances from the provincial bank and sometimes from other central banks. According to the Banking Committee the capital which the central banks can attract at present is ample for the requirements of the movement, while the interest they have to pay on the deposits is in some provinces as low as 4 per cent.[1]

A Provincial Bank is, again, a federation of central banks in a province and its main function is to finance central banks and act as a balancing centre to them. The resources of a provincial bank are comprised in the same manner as those of a central bank: it receives cash credits and overdrafts from the Imperial Bank and loans from other provincial banks.

The activities of the various provincial banks are coordinated by the Indian Provincial Co-operative Banks Association. 'In short, money flows from the provincial to the central bank and from the central bank to the rural societies, and from them to the individual borrowers.'[2]

Rates of Interest. The rates of interest charged by the primary societies from the cultivator are summarised in the following table:[3]

[1] *Indian Banking Committee Report*, 1931, para. 157.
[2] *Ibid.*, para. 158.
[3] *Ibid.*, p. 129 Figures for Delhi and N.W.F. Province are not given in the Banking Report. They are taken from latest reports on working of co-operative societies in those areas.

Province	Interest Rate per cent.
Ajmer-Marwara	9 to 12
Assam	$15\frac{5}{8}$ or $18\frac{3}{8}$[1]
Bengal	$7\frac{1}{2}$ to $15\frac{5}{8}$
Behar and Orissa	$12\frac{1}{2}$ to $15\frac{3}{8}$
Bombay	$9\frac{3}{8}$ to $12\frac{1}{2}$
Burma	15
Central Provinces	12
Delhi	12
Madras	$9\frac{3}{8}$ to $10\frac{15}{16}$
North-West Frontier Province	$12\frac{1}{2}$
Punjab	$9\frac{3}{8}$ to $12\frac{1}{2}$
United Provinces	15

General Progress, 1926-32. Turning now to the general progress of the co-operative movement, in 1925-26 there were in India as a whole 80,182 societies with just over three million members, and a working capital of R. 58 crores. In 1930-31, the latest year for which figures are available, the number of societies in existence in the whole of India, including over 16,000 societies in the Indian States, was 106,166, with a membership of well over four millions and a working capital of nearly R. 92 crores.[2] The record as revealed by these statistics is one of continued progress.

Varying Progress in Different Provinces. But progress varies in different provinces. This would be better understood if one general consideration were borne in mind. 'If the reader glances at the map of India, he will see on the east and in the centre an immense block of territory represented by Bengal, Behar and Orissa, the Central Provinces and the United Provinces, where, broadly speaking, the agriculturist is a tenant holding his land by one form of tenure or another from a landlord. This means that he can

[1] Generally $12\frac{1}{2}$ per cent. in the case of old societies in the Assam valley.

[2] The figures relate to the financial year ending 31st March, 1931, and are taken from *Statistical Statements Relating to Co-operative Movement in India*, during the year 1930-31, pp. 3, 4 and 5. The figures include both credit and non-credit societies, but the latter numbered only about 16,000. Even if separate figures for the former were given, the position would remain materially unaltered.

only offer personal security for any obligation contracted by him. To the north, the west and the south of this block are the ryotwari provinces of the Punjab, Bombay and Madras —that is, the provinces where the agriculturist as a rule has mortgageable rights in his land and therefore can offer real, instead of personal, security. Thus the co-operative movement in the former group of provinces is faced with certain difficulties which do not appear in the latter group.'[1]

The Punjab. Taking the latter group first, during the period 1926-31 (later figures not being available), the movement has made on the whole good progress in the Punjab. In 1926-27 the number of societies in the province was 16,563; in the year ending on the 31st July, 1931, it rose to 20,742. During the same period there was a rise in the membership from 505,122 to 721,037 and in the working capital from R. 11,61 lakhs to 18,11 lakhs.[2] It must be pointed out that, owing to the present conditions of economic depression, the rate of increase in the number of societies has fallen during the last two years.[3] But it will be noticed that membership has increased faster than the number of societies and the working capital faster than membership.

Equally gratifying is the expansion of the women and children's co-operative movement, which is a special feature of the Punjab. In 1926-27 there were 79 such societies, with 1,163 members and R. 26,292 as working capital. In 1930-31 the number of societies had risen to 164, with a membership of 2,871 and working capital of R. 1,39,701.[4] Of the 164 societies 154 thrift societies are for women, 9 thrift societies for children—both boys and girls of all ages —while one is a Better Living Society.[5]

[1] *India in 1927-28*, pp. 375-6. The position remains substantially the same at the time of writing (1932).

[2] *Report on the Working of Co-operative Societies in the Punjab* for year ending 31st July, 1927, p. 2; for year ending 31st July, 1931, p. 3.

[3] *Ibid.*, year ending 31st July, 1931, p. 4.

[4] *Ibid.*, year ending 31st July, 1928, p. 8; year ending 31st July, 1931, p. 6.

[5] *Ibid.*, year ending 31st July, 1931, p. 7.

The work of consolidation of holdings—another special feature of the Punjab—continues to make good progress. In 1931 as many as 142 new societies were started for the purpose, as compared with 113 in the preceding year. The area consolidated was 50,105 and 72,821 acres in 1930 and 1931 respectively, while the average size of block increased over the whole of the Punjab from 0·51 to 2·9 acres in 1930 and 0·61 to 3·3 acres in 1931.[1]

As against the above progress, the percentage of repayments to societies has decreased from 34 in 1926-27 to 16 in 1930-31 in a descending order of 33, 28 and 23 in the three intervening years.[2]

Bombay. In 1925-26 there were 4,656 societies in the province, with 447,808 members and R.8,78,67,849 as working capital. In 1930-31 the number of societies rose to 5,896, with a membership of 585,869 and a working capital of R. 13,90,99,530.[3]

Urban societies which finance local trade and give modern banking facilities of all kinds have made more progress in Bombay than perhaps in any other province. On the 31st March, 1931, there were in the Bombay Presidency 615 non-agricultural credit societies (including 82 urban banks) with a membership of 208,357 and a working capital of R. 3,79,57,222.[4] But in the case of factory workers, the Bombay Provincial Banking Inquiry Committee point out in their report (para. 223) that the workers 'are still in the hands of sowcars and Marwari traders, and the only service which the societies render to them lies in securing funds for domestic expenses.'

Madras. The movement in Madras has been the subject of a special inquiry by a committee appointed in 1927 under

[1] *Report on the Working of Co-operative Societies in the Punjab* for year ending 31st July, 1931, p. 28. [2] *Ibid.*, p. 19.

[3] *Report on the Working of Co-operative Societies in Bombay*, 1925-26, p. 5; 1930-31, pp. 8-9.

[4] *Ibid.*, 1930-31, p. 44.

the presidency of Mr. Townsend.[1] The report of the Townsend Committee was published on the 21st February, 1928.[2] On the 30th June, 1927, the Madras Presidency had 12,969 societies, with 830,522 members and R. 13,34·34 lakhs of working capital. On the 30th June, 1931, there were 15,042 societies, with 981,100 members and R. 18,00·52 lakhs of working capital. Acting upon the advice of the Townsend Committee, a policy of rectification and consolidation is being steadily pursued with beneficial results.[3]

The trading societies and societies for organising labour on a co-operative basis, which are a special feature of the movement in Madras, appear to be making fair progress.

But a disquieting feature has been the increase in criminal prosecutions for misappropriation of funds to 86 in 1930-31, as against 50 in 1929-30 and 43 in 1928-29. Of the 86 prosecutions, 68 were disposed of by the courts by the end of the year, and there were 54 convictions.[4]

United Provinces. The United Provinces, quite close to the Punjab, have a different story to relate. There the Government appointed a committee in September 1925 'to inquire and report upon the reasons why co-operative societies in various localities have not succeeded better in gaining the confidence and support of the people.' The committee, after a careful survey of the whole field, came to the conclusion that, judged by proper standards, 'most of the primary societies of the provinces are a sham.' In its resolution on the Oakden Committee's report, the Government of the United Provinces stated: 'This may appear to be a harsh judgment, but the Government on a careful consideration of the facts adduced by the Committee agree that

[1] *Report on the Working of the Co-operative Societies Act, Madras*, 1926-27, p. 48.
[2] *Ibid.*, 1927-28, p. 28.
[3] Government Order No. 374, Government of Madras, dated 12th March, 1932.
[4] *Report on the Working of the Co-operative Societies Act, Madras*, for 1930-31, p. 17.

it is substantially correct.'[1] The reports on the working of the societies for 1926-27 onwards are a record of continuous efforts at reconstruction and reorganisation and honest admission of partial failure.

According to the Provincial Banking Inquiry Committee, some progress has doubtless been made in effecting improvement in existing societies, 'but the results hitherto achieved are not great, and co-operation is not yet a living force in the province, save perhaps in a few isolated places.'[2]

What is a matter of special anxiety to the co-operators in the province is the increase in overdues from 31 per cent. in 1927-28 to 38 per cent. in 1928-29, 47 per cent. in 1929-30, and 53 per cent. in 1930-31.[3]

Central Provinces. As in the United Provinces, the period 1926-31 has been one of consolidation and reconstruction for co-operative societies in the Central Provinces also. An idea of what has happened may be obtained from the fact that 232 weak societies were weeded out in 1925-26, 325 in 1926-27, 295 in 1927-28, 269 in 1928-29, and 161 in 1929-30, making a total of 1,282 societies dissolved in five years. An interesting feature of recent years, however, is the consolidation of holdings. A special officer has been deputed to carry on the consolidation work, and in 1928 the provincial Legislative Council passed the Consolidation of Holdings Act to be applied to one division only.

Burma. The position in Burma has been far from satisfactory. It was thoroughly investigated by a Committee under Mr. Calvert. The Committee was of opinion that the system required a thorough reorganisation. The Registrar and his staff have been so busy in the process of re-

[1] Extract from the Resolution of the Government of United Provinces on the Report of the Oakden Co-operative Committee, September, 1926.

[2] *United Provinces Provincial Banking Inquiry Committee Report*, 1929-30, para. 288.

[3] *Report on the Working of Co-operative Societies in the United Provinces for* 1929-30, p. 1; for 1930-31, p. 3.

organisation that little or no constructive work is in progress.[1]

North-West Frontier Province. In the North-West Frontier Province no agricultural banks or co-operative credit societies existed at all until as late as 1925. After the passing of the Co-operative Credit Societies Act of 1904, an attempt was made to start them. The only society which worked there for any length of time ceased to exist in 1913-14. The rural population of the province is orthodox Mahomedan and is opposed to the levy of interest or profit on capital. But economic pressure at long last proved stronger than a religious injunction, and the ice was broken under the able leadership of the Registrar, Mr. C. F. Strickland. The movement was reintroduced into the province in May 1925, and during the year ending 31st July, 1931, there were 239 agricultural credit societies, 3 non-agricultural credit and 14 non-agricultural non-credit societies with 5,923, 750 and 1,049 members and R. 5·39, R. 1·80 and R. 0·79 lakhs capital respectively.[2]

Behar and Orissa. As a result of the recommendations of the Royal Commission on Agriculture in India and of the recent Behar and Orissa Provincial Banking Inquiry Committee Report, a Committee was appointed on the 28th August, 1931, 'to review the present condition of co-operative institutions in Behar and Orissa and to make recommendations for the improvement of co-operation in the province.' The report of the Behar and Orissa Committee on Co-operation, 1931-32, has been issued recently (May 1932) and is highly informative and suggestive.

Bengal, Assam, Ajmer-Marwara, Delhi and Coorg. The annual reports on the working of co-operative societies for the last five years show that the expansion of co-operative

[1] *Burma Banking Committee Report*, 1929-30, para. 391.
[2] *Report on the Working of the Co-operative Societies in the North-West Frontier Province*, up to 31st July, 1931, p. 2.

credit in Bengal, Assam, Ajmer-Marwara, Delhi and Coorg has been very steady, though not spectacular. But the recent economic depression 'imposed on the movement a much severer strain than it has ever had to face and threw into prominence its defects and weaknesses.'[1] For the most part the great need of the moment has been consolidation rather than further expansion of the movement.[2]

Recent Depression and Co-operation. The adverse effect of the recent trade depression has not been confined to any particular province or provinces, it has covered the whole country. The following observations of the Registrar of Co-operative Societies, Bombay, may be taken to describe the situation throughout the whole of India.

> 'The general situation is distinctly disquieting. The trade depression, the fall in commodity prices, and the political uncertainty have disorganised the whole country side. The economic distress has demoralised the agriculturist, and arrears and overdues have increased enormously. Moreover, with the economic and political horizons still clouded, there is no knowing when an agrarian crisis may again arise. . . . The way in which the storm has been weathered so far indicates the inherent soundness of the Movement, and gives good ground for hope that its beneficent activities and its financial stability will be maintained in the future as well.'[3]

Inadequacy of the Movement. But it is a matter of regret that the movement is yet so inadequate as it is. According to the reports of the various Commissioners of Income-tax, with the exception of the Punjab, co-operation has not apparently affected the rural moneylending business, the village moneylenders being still the principal source of finance for the rural population.[4] In this connexion some

[1] *Report on the Working of Co-operative Societies in Bengal*, 1930-31, p. 8.
[2] *Ibid.*, p. 9.
[3] *Report on the Working of Co-operative Societies in Bombay* for year ending 31st March, 1931, p. 67.
[4] *All India Income-Tax Report and Returns* for the year 1930-31, p. 7.

of the statistics made available by the Royal Commission on Agriculture in India and the recent Banking Inquiry Committee are valuable. That the movement affects only a small part of the population must be obvious from the following table:[1]

	Proportion of Members of Agricultural Societies to Families in Rural Areas.	
	All Societies (per Cent.).	Credit Societies (per Cent.).
Ajmer Marwara	15·4	15·0
Assam	2·9	2·9
Bengal	4·4	3·8
Behar and Orissa	3·2	3·1
Bombay	10·0	8·7
Burma	3·9	3·7
Central Provinces and Berar	2·4	2·3
Coorg	36·2	36·2
Delhi	11·5	11·5
Madras	8·3	7·9
North-West Frontier Province	0·2	0·2
Punjab	10·9	10·2
United Provinces	1·8	1·8

Even in a small area like Coorg, where the movement is at its best, it touches well below 40 per cent. of the rural families, while in the North-West Frontier Province not even one out of a hundred families are benefited. Among the major provinces the Punjab and Bombay stand highest, with a record of 11 and 10 per cent. of families respectively.

Nor is the extent of finance provided any more satisfactory, even in Bombay and the Punjab, which are admittedly the most advanced provinces as regards co-operation. In Bombay the co-operative societies, according to the Provincial Banking Inquiry Committee, provide but 7 per cent. of the total finance required by the agriculturists.[2] The Punjab Banking Committee estimate the agricultural financial needs of the province at between 52 and 65 crores

[1] *Report of the Royal Commission on Agriculture in India*, 1928, p. 447.
[2] *Bombay Banking Inquiry Committee Report*, para. 227.

of rupees, and find that the co-operative societies provide 'only a small fraction of it.'[1]

Causes of Slow Progress. The question naturally arises as to why the movement has not made more progress in India. The answer may be given in the words of Mr. Kharegat with regard to the United Provinces. 'To some extent the better class of cultivator is frightened by the bogey of joint responsibility. The chief reasons, however, are that accounts have not always been correctly maintained; that the members have had to put up with a great deal of personal inconvenience and even indignity; that they cannot get sufficient money for their requirements; that they have often to wait a long time for it; and that they are not educated to the necessity and importance of punctuality in repayments and prefer the more accommodating policy of the moneylender, forgetting its ultimate consequences. At the present time, in a great many cases, the moneylender and the co-operative society flourish side by side, the cultivator using both to suit his convenience. He obtains part of his finance from the society and the rest from the moneylender.'[2] According to the United Provinces Banking Inquiry Committee, 'the existing defects and difficulties appear to be inherent in the system of work. The essence of a co-operative society is that the members should learn to manage their own affairs; with an illiterate peasantry the task of teaching them to do so is a slow and laborious process. . . . The extreme importance of education and supervision has so far not been realised, whilst the desire to see quick and widespread results has actually retarded progress.'[3]

Land Mortgage Banks. But one of the most serious problems with which the co-operative societies will have to deal for some time to come is that of the existing accumu-

[1] *Punjab Banking Inquiry Committee Report*, para. 150.
[2] *United Provinces Banking Committee*, 1929-30, Minutes of Evidence, vol. iii., p. 414.
[3] *United Provinces Banking Committee Report*, para. 289.

lated debts due to high and compound interest, or to uneconomic methods and habits and to dishonest dealings. Redemption of old debts raises the problem of providing long-term credit for which the co-operative machinery includes a special type of institutions called land mortgage banks. They will be discussed at length in Chapter VI., but with a view to completing the picture of co-operation as a whole, a brief review of their progress in the various provinces during the period 1926-31 is attempted below.

No land mortgage banks exist in Behar and Orissa, Burma, the United Provinces and the centrally administered areas. In Burma a Land Mortgage Bill has proved abortive, but it is proposed to make an experiment with two independent banks on a very small scale, their liabilities not exceeding R. 2½ lakhs. A lakh of working capital has been provided by the provincial government, and further progress depends on the results of the present experiment.[1]

In the Punjab there have been since 1927-28 twelve mortgage banks, four of the old type (unlimited liability) and eight of the new. The new banks are based on the principle of limited liability and work in a comparatively small area. They also require the borrower to furnish a partial guarantee (up to R. 1,000) of his loan from a credit society, if such a society exists in his place of residence. During 1930-31 the banks had a working capital of R. 22·78 lakhs, of which R. 14·57 lakhs were contributed by Government at 6½ per cent.[2] As compared with the preceding years the year 1930-31 is remarkable for the decline in both the number and amount of loans advanced. This is part of the present policy owing to the extremely low yield from agriculture. The position is explained by Government in the following words: 'Land Mortgage Banks—probably

[1] *Indian Banking Committee Report*, 1931, para. 204.

[2] *Report on the Working of the Co-operative Societies in the Punjab* for the year ending 31st July, 1931, p. 32.

the most difficult of all forms of co-operative effort—show a small profit; but they have been badly hit by the collapse of prices of agricultural produce; it has been found necessary to relieve the borrowing members of part of their burden by reducing the instalments: new loans are being restricted and old loans are being recovered with difficulty. It takes many years to build up a sound mortgage bank, and the present crisis has fallen upon them before they had time to collect large reserves. As the value of land has also fallen, realisation by sale of the security is not at present a suitable measure, and much care and patience will be required to nurse these institutions through their present troubles.'[1]

The Madras Presidency has adopted a bold policy of establishing land mortgage banks on the limited liability basis. The operations of each bank are restricted to a compact group of villages, and the borrowing power is ordinarily limited to eight to ten times the paid-up share capital. Recently, however, the tendency has been to extend the local area of operations and to increase the individual maximum borrowing power.[2]

A central land mortgage bank has been recently established on the recommendation of the Townsend Committee. Besides, at the end of 1930-31, there were 37 primary land mortgage banks of which 13 did no work beyond collection of share capital. The total number of members was 5,128, with a paid-up share capital of R. 1,99,899, while the working capital amounted to R. 17,10,669. Of the 37 banks, 15 worked at a profit of R. 18,372 and 22 incurred a loss of R. 11,009.[3]

In the Bombay Presidency no land mortgage banks existed before 1926-27, while there were only three working during 1930-31. The Registrar of Co-operative Societies

[1] *Extract from the Proceedings of the Punjab Government* (Ministry of Agriculture), No. 322-D, dated the 29th January, 1932.

[2] *Indian Banking Committee Report*, 1931, para. 207.

[3] *Report on Co-operative Societies, Madras*, 1930-31, p. 25.

as well as the Bombay Provincial Bank are represented on the managing committee of the mortgage banks and may accept or reject its recommendations in regard to loans.

In Bengal there are two land mortgage banks. The first was established in 1924, but did not start work till 1925. The other was started in 1927, but for want of finance could not do much business till February 1929. Both are limited liability institutions.

A beginning was made in Assam by establishing a land mortgage bank in the district of Kamrup in 1926. A second bank was opened in Sylhat in March 1927, and in 1930-31 the number of banks had increased to five. In the case of Kamrup and Sylhat banks, no loans can be given exceeding twenty times the paid-up share money of the borrower, or 50 per cent. of the market value of the land. The maximum period of repayment is twenty years, and an individual's loan must not exceed R. 10,000. Both the banks work on deposits and do not issue debentures. Their overdues of both principal and interest are reported to be heavy.[1]

In the Central Provinces the question of opening land mortgage banks was seriously examined by the Registrar of Co-operative Societies during 1926-27. In 1929-30 Government sanctioned the establishment of two land mortgage banks at Morsi and Mehkar as an experimental measure. It is yet early to speak about the result of the experiment.

4. STATE LOANS.

Loan Acts. The Government afford financial assistance to agriculturists under two Acts called the *Land Improvement Loans Act XIX.* of 1883 and *Agricultural Loans Act XII.* of 1884. Complete statistics of such loans made in the various provinces are not available, but the statistics below, which have been furnished by the Provincial Banking Inquiry

[1] *Indian Banking Committee Report,* 1931, para. 210.

Committees, indicate that the amount of State finance granted is very small in proportion to the needs of agriculture.[1]

(In thousands of Rupees.)

Name of Province.	Amount of Loans Under the— Land Improvement Loans Act.	Amount of Loans Under the— Agricultural Loans Act.	Remarks.
Assam	7	1,50	Average of five years.
Bengal	93	14,44	In 1928-29.
Behar and Orissa	70	8,34	Average of five years.
Bombay	13,72(*a*)	9,57(*b*)	(*a*) In 1926; (*b*) average of normal years.
Burma	20(*a*)	1,90(*b*)	(*a*) Ordinary year; (*b*) average of ten years.
Central Areas	1,70	1,58	Average of three years.
Madras	12,70	11,54	In 1927-28.
The Punjab	5,00	11,00	Average of five years.

Rates of Interest. Ever since the passing of the Loans Acts, the usual rate of interest on the State loans, called *Taccavi*, has been 6 to 6¾ per cent., with a minimum of 3 per cent. and a maximum of 12 per cent.[2]

As regards the period of repayment, the maximum permissible under the *Land Improvement Loans Act* is thirty-five years, although in practice it is restricted to twenty years or even less,[3] while loans under the *Agricultural Loans Act* have to be repaid generally much sooner than those under the *Land Improvement Loans Act.*

Defects. Apart from the question of amount, the system of State loans is open to two serious objections. Firstly,

[1] *Indian Banking Committee Report*, 1931, p. 180.

[2] At present the maximum is 10 per cent. in Burma alone. In Coorg the rate is 7½ per cent. (*Indian Banking Committee Report*, 1931, para. 238.)

[3] In Central Provinces it is only five or six years. (*Ibid.*)

from the standpoint of administration it is inelastic and difficult to supervise. No executive authority in a district, however able, can satisfactorily discharge the duties—which properly belong to specialised credit institutions—of financing the agricultural improvements of the area under its jurisdiction. Complaints are often heard of delay in the disposal of loan applications, the levy of illegal gratifications by the petty officials through whom advances and recoveries are made, and rigidity and unfairness in the process of realisations.[1] Secondly, the system of State aid to a cultivator comes as a windfall and discourages thrift and self-help, without which no permanent improvement is possible.

Agency of Distribution. To overcome the latter objection suggestion is sometimes made that *takavi* loans would be best administered through co-operative agencies.[2] This is actually the case in Bombay, where *takavi* loans can be distributed only through co-operative societies in places where they exist. But the Madras, Assam, Behar and Orissa and the Punjab Provincial Banking Committees are against this practice, and they have the support of the Indian Central Banking Committee, which points out the inadvisability of using the co-operative agency to advance loans to non-members on the responsibility of the society for their recovery and proper application. There is no objection, however, to Government employing the co-operative societies as mere agents for distribution.[3]

[1] *Indian Banking Committee Report*, 1931, para. 240.
[2] *Indigenous Banking in India*, 1929, p. 189.
[3] *Indian Banking Committee Report*, 1931, para. 245.

CHAPTER IV

THE MONEY MARKET (B), 1926-32

1. JOINT-STOCK BANKS.

Origin and Development, 1860-1913. Modern joint-stock banking in India may be said to date definitely from 1860, for it was by Act VIII. of that year that the principle of limited liability was first applied to the joint-stock banks.[1] But they hardly made any progress until 1905, first because of the speculative crisis of 1865 in Bombay and, secondly, because of the currency chaos between 1873 and 1893. The former by bringing to the Bank of Bombay the disgrace of liquidation proceedings[2] in 1868, and the latter by causing trade uncertainties, created an atmosphere which was inimical to the promotion of new banking ventures. The *Swadeshi* movement of 1906-13 led to the establishment of a large number of new joint-stock banks, as appears from the table on page 89.[3]

The number of banks with a capital and reserve of over 5 lakhs was thus nearly doubled during 1906-13, but the number of smaller banks which sprang up was very much larger. Of the 98 banks which failed during 1913-19,[4] as many as 58 were created during the boom of 1906-13.[5] But

[1] In England the principle of limited liability was extended to banking institutions in 1858, although liability for note issue still continued unlimited.

[2] From these, however, the Bank came out unscathed and it was restarted the same year.

[3] *Statistical Tables Relating to Banks in India*, 1st issue, 1915, p. 15.

[4] The banks which have failed since 1919 were mostly established after 1913.

[5] These figures are arrived at by an analysis of the information given in the annual *Statistical Tables Relating to Banks in India.*

JOINT-STOCK BANKS WITH CAPITAL AND RESERVE OVER R. 5 LAKHS (1906-13).

Year. I.	No. of Banks. II.	Capital and Reserve (R. Lakhs). III.	Deposits (R. Lakhs). IV.	Cash Balances (R. Lakhs). V.	Ratio of V. to IV.
1906 -	10	1,90	11,55	1,49	13
1907 -	11[1]	2,92	14,00	1,94	14
1908 -	14	3,09	16,26	2,45	15
1909 -	15	3,54	20,49	2,79	14
1910 -	16	3,76	25,66	2,80	11
1911 -	18	4,12	25,29	3,62	14
1912 -	18	4,26	27,26	4,00	15
1913 -	18	3,64	22,59	4,00	18

most of the existing important joint-stock banks were also established during these years. Amongst them may be mentioned the Bank of India (1906), the Indian Bank (1907), the Punjab and Sind Bank (1908), the Co-operative Hindustan Bank (1908), the Bombay Merchants' Bank (1909), the Central Bank of India (1911), and the Bank of Mysore (1913).

Apart from the rapid growth in the number of joint-stock banks, another fact which emerges with equal clarity from the foregoing table is the unsteady and low proportion of the banks' cash to their liabilities on deposits. The year 1913 showed some improvement in this respect, when the ratio had risen to 18 per cent., but it is noticeable that this rise in the proportion of cash to liabilities on deposits was accompanied by a reduction in the deposits. Moreover, even 18 per cent. was not a high ratio in the peculiar conditions of India, and on the whole the banks' cash position during 1906-13 was anything but satisfactory.

[1] The figure given in the *Statistical Tadles*, and also in *Indian Finance and Banking*, by G. F. Shirras, 1920, p. 470, is 20, but this seems an obvious misprint. The correct figure is 11. (*Indian Currency and Finance*, by J. M. Keynes, 1913, p. 224.)

The Bank Failures of 1913-17. The period of boom was followed by the crash of 1913-17, in which the total paid-up capital of the banks that failed was no less than 51 per cent.[1] of the total paid-up capital of all the joint-stock banks surviving in 1917. An idea of what happened may be gathered from the following table:[2]

LIQUIDATIONS.

Year.	Number.	Capital (in Lakhs of Rupees). Authorised.	Paid up.
1913 - -	12	2,74	35
1914 - -	42	7,10	1,09
1915 - -	11	56	5
1916 - -	13	2,31	4
1917 - -	9	76	25
Total -	87	13,47	1,78

Thus, within five years, as many as 87 banks with a paid-up capital of R. 1,78 lakhs went into liquidation in a country in which there were, and still are, very few joint-stock banks. It is true that most of the institutions which disappeared were small and weak, but with them disappeared the following comparatively big banks as well:

	Paid-up Capital (in Lakhs of Rupees).
1. The Indian Specie Bank - - -	75
2. The People's Bank - - - -	13
3. The Credit Bank of India - - -	10
4. The Standard Bank of Bombay - -	10
5. The Bank of Upper India - - -	10
Total -	1,18

Position after the Crisis, 1913-17 *to* 1925. In estimating the progress of joint-stock banking since the crisis of 1913-17, the following statistics will be found useful:

[1] *Statistical Tables Relating to Banks in India* for 1917, p. 2.
[2] Shirras, *op. cit.*, p. 366.

CAPITAL, RESERVE, DEPOSITS AND CASH BALANCES OF THE PRINCIPAL INDIAN JOINT-STOCK BANKS ON 31ST DECEMBER EACH YEAR,[1] 1913-25.

	Class A. (Capital and Reserve over R. 5 lakhs.)				Class B. (Capital and Reserve, R. 1-5 lakhs.)			
Year.	No. of Banks.	Capital and Reserve.	Deposits.	Cash Balances	No. of Banks.	Capital and Reserve.	Deposits.	Cash Balances.
		R. lakhs.	R. lakhs.	R. lakhs.		R. lakhs.	R. lakhs.	R. lakhs.
1913 (pre-War year)	18	3,64	22,59	4,00	23	50	1,51	25
1914	17	3,93	17,11	3,53	25	55	1,26	28
1915	20	4,38	17,87	3,99	25	55	91	20
1916	20	4,61	24,71	6,03	28	63	1,01	17
1917	18	4,67	31,17	7,65	25	54	99	20
1918	19	6,02	40,59	9,49	28	63	1,55	37
1919	18	7,63	58,99	12,17	29	75	2,28	54
1920	25	10,92	71,15	16,31	33	82	2,33	42
1921	27	12,40	76,90	15,66	38	1,00	3,26	44
1922	27	10,64	61,64	12,04	41	1,11	3,38	56
1923	26	9,73	44,43	7,37	43	1,11	3,26	61
1924	29	10,71	52,50	11,30	40	1,07	2,67	34
1925	28	10,60	54,49	10,10	46	1,18	3,42	68

Unsteady Increase in Resources. The first fact which emerges from a study of the foregoing table is the unsteady increase in the total resources of the joint-stock banks during the period 1913-25. This will be evident from the following summary of the statistics:

(In Crores of Rupees.)

	1913.	1914.	1915.	1916.	1917.	1918.	1919.	1920.	1921	1922.	1923.	1924.	1925.
Capital and Reserve	4	4	5	5	5	7	8	12	13	12	11	12	12
Deposits -	24	18	19	26	32	42	61	73	80	65	48	55	58
Total -	28	22	24	31	37	49	69	85	93	77	59	67	70

All the three sets of figures—*i.e.*, Capital or Reserve, Deposits and Total Resources—follow throughout the same general trend. It is, perhaps, most important to follow the statistics of deposits, the movement of which shows the vary-

[1] *Statistical Tables Relating to Banks in India* in 1926, p. 2.

ing position of the banks in the money market and the confidence they enjoy in it. Starting with 1913, we find a fall of R. 6 crores in the deposits in the very next year, which may be accounted for by the banking crisis caused by the outbreak of the War. From 1915 onwards the deposits are seen mounting up with increasing rapidity, until in 1921 the record figure of R. 80 crores is reached. Then follows a striking fall, culminating in 1923, when the deposits declined to R. 48 crores. It may be argued that these were exceptional years of inflation followed by deflation, in which there were marked movements in the general price-level. In order to allow for this phenomenon, let us convert the statistics of deposits for the various years in terms of the pre-War price-level. The result is as under:

	1913.	1914	1915.	1916.	1917.	1918.	1919.	1920.	1921	1922.	1923.	1924.	1925.
General index of price-level[1]	100	103	106	129	137	157	166	183	173	164	154	158	159
Deposits (nominal)	24	18	19	26	32	42	61	73	80	65	48	55	58
Deposits converted to pre-War value	24	17	18	20	23	27	36	40	46	40	31	35	36

(N.B.—The Deposits are in crores of rupees.)

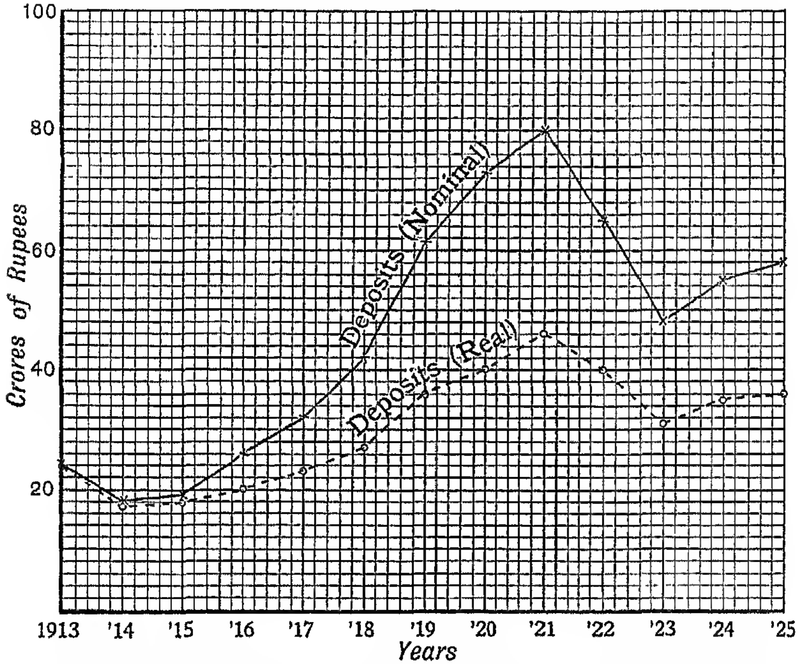
The position of joint-stock banking during 1913-25, judging from the variations in the amount of deposits, even after taking into account price movements, was not free from anxiety. This becomes clear if the figures are reproduced in diagrammatic form.

In the diagram on page 93 it will be seen that the two curves representing deposits follow the same trend, but that the rises and falls in the case of the curve that makes allowance for variations in the general price-level are less pronounced than in the case of the curve representing the nominal value.

[1] Computed from General Index Number based on thirty-nine commodities, basic year 1873, published by the Director-General of Commercial Intelligence and Statistics, Calcutta.

If we look at the former, two facts at once stand out: a continuous rise in deposits, with an accelerated pace towards the maximum in 1921, and a sharp fall in 1923. The rise may be accounted for by the extraordinary activity in trade and the flotation of new companies in the post-War boom. The world-wide trade depression which followed the brief boom, and in which India had her share, coupled with the

DEPOSITS OF THE JOINT-STOCK BANKS, 1913-25.



collapse of the Indian exchange in 1920-21, explains the fall in the deposits in 1923. In the following two years they show signs of slow recovery. Of course, the economic conditions in India in 1921 and 1923 were exceptional, but the fall of R. 15 crores (R. 22 crores, if no allowance is made for changes in prices) in deposits within two years was a clear indication of the weakness of the Indian banking system in face of unfavourable conditions.

The Bank Failures during 1918-25. The review of joint-stock banking in India before 1925 may be completed by examining the bank failures since the critical years of 1913-17. That the failures of banks during 1918-25 do not compare with the seriousness of those of 1913-17 is clear from the following statement, but the fact that they numbered 91 in eight years, and involved a paid-up capital of R. 5·13 crores is serious enough.

STATEMENT SHOWING FAILURES OF INDIAN JOINT-STOCK BANKS FROM 1918-25.

Year.	No. of Companies Involved.	Capital.		
		Authorised.	Subscribed.	Paid-up.
1918 - -	7	2,09,49,970	4,85,651	1,46,185
1919 - -	4	52,50,000	6,47,185	4,02,737
1920 - -	3	10,40,000	7,67,700	7,24,717
1921 - -	7	70,40,000	5,80,965	1,25,329
1922 - -	15	10,15,55,000	27,25,744	3,29,991
1923 - -	20	21,86,89,995	9,92,36,480	4,65,47,325
1924 - -	18	6,30,30,000	26,46,370	11,33,623
1925 - -	17	1,89,80,000	25,41,695	18,75,795

Position during 1926-32. Having briefly surveyed the progress of Indian joint-stock banking prior to 1925, the position during the last seven years may now be examined. It is unfortunate that statistical information about banks in India is at the time of its publication usually two years out of date.[1] According to the latest statistics available at the time of writing, it appears that in 1930 there were 84 joint-stock banks from which returns were received by the Government of India. Of these, 30 had a paid-up capital and reserve of R. 5 lakhs and over, and 54 were smaller banks

[1] The *Statistical Tables Relating to Banks in India*, published in 1932, contain returns up to 1930 only.

with a paid-up capital and reserve of from 1 lakh to 5 lakhs. The following table gives a general idea of the progress during 1926-30:

CAPITAL, RESERVE, DEPOSITS AND CASH BALANCES OF THE PRINCIPAL INDIAN JOINT-STOCK BANKS ON 31ST DECEMBER EACH YEAR, 1926-30.[1]

	Class A.				Class B.			
Year.	No. of Banks.	Capital and Reserve.	Deposits.	Cash Balances.	No. of Banks.	Capital and Reserve	Deposits.	Cash Balances.
		R. lakhs.	R. lakhs.	R. lakhs.		R. lakhs.	R. lakhs.	R. lakhs.
1926	28	10,84	59,68	9,12	47	1,26	3,47	82
1927	29	11,08	60,84	7,70	48	1,22	3,46	52
1928	28	11,10	62,85	8,19	46	1,20	3,50	52
1929	33	11,54	62,72	9,05	45	1,15	3,58	45
1930	30	11,85	63,22	7,67	54	1,37	4,31	52

Numbers and Resources. The first fact which meets the eye in the foregoing table is the difference in the numerical strength of various banks. The number of joint-stock banks with a capital of over 5 lakhs rose from 28 in 1926 to 29 in 1927, fell to 28 in 1928, rose to 33 in 1929, and again fell to 30 in 1930. On the other hand, the number of smaller banks with a capital of over 1 lakh but under 5 lakhs rose from 47 in 1926 to 48 in 1927, and though it fell to 46 in 1928 and to 45 in 1929, it rose to 54 in 1930. Taking both classes of banks together, they rose from 75 in 1926 to 77 in 1927, and although they fell to 74 in 1928, they rose to 78 in 1929 and to 84 in 1930.

Turning to the resources of the banks, there is, on the one hand, a continuous rise in the capital and reserves of the bigger banks and, on the other hand, a continuous fall in the capital and reserves of the smaller banks until 1929, but a record rise in 1930. The latter phenomenon is explicable by the changes in the number of the banks themselves, but the fall in the capital and reserve of these banks from

[1] *Statistical Tables Relating to Banks in India* in 1930, p. 2

R. 126 lakhs to R. 122 lakhs, while their number increased from 47 to 48 in 1927, is unexpected. As for the deposits, on the whole, they show a tendency to rise. The fall in the deposits of the bigger banks from R. 62·85 lakhs to R. 62·72 lakhs at a time when their number rose from 28 to 33 may well be occasion for some anxiety, but it is relieved by the rise in the deposits from R. 62·72 to R. 63·22 lakhs in 1930, even although the number of banks fell from 33 to 30. If the above statistics of both classes of banks are combined together a slight but continuous improvement is visible.

(In Crores of Rupees.)

Year.	Capital and Reserve.	Deposits.	Total Resources.
1926 - - - -	12·1	63·1	75·2
1927 - - - -	12·3	64·3	76·6
1928 - - - -	12·3	66·3	78·6
1929 - - - -	12·7	66·3	79·0
1930 - - - -	13·2	67·5	80·7

The above figures need correction, however, in order to allow for variations in the general price-level. Taking the statistics of deposits,[1] they are adjusted below in terms of the pre-War price-level:

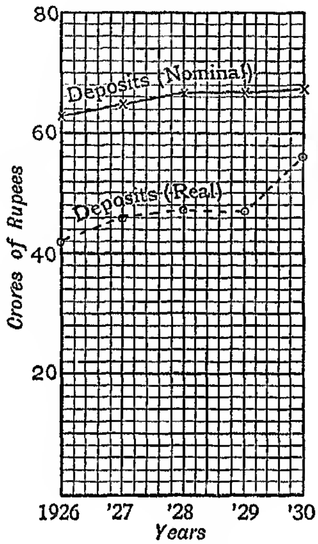
Year.	1926.	1927.	1928.	1929.	1930.
General index of price-level, 1913 = 100 - - -	151	141	141	142	120
Deposits (nominal) - -	63·1	64·3	66·3	66·3	67·5
Deposits converted to pre-War value - - -	42	46	47	46·7	56

(N.B.—The Deposits are in crores of rupees.)

[1] These alone are taken to facilitate comparison with similar statistics on page 92 above.

The deposits, after taking into account the price movements, undoubtedly show marked improvement in the year 1930 as compared with 1926. But, if the last year is excluded, a slight decline is revealed in 1929, and the improvement in the preceding year is so small that a cautious critic might be inclined to consider it as an approximation to stagnation rather than an indication of progress. Put

DEPOSITS OF THE JOINT-STOCK BANKS, 1926-30.



in diagrammatic form, the statistics serve to show on the whole clear progress in the resources of joint-stock banks in recent years.

Summary of Balance Sheets. It will be perhaps better to examine and summarise the balance sheets of some of the leading joint-stock banks. The following table indicates the position of the better-known existing banks as shown in the latest available balance sheets:[1]

[1] *Indian Year Book*, 1932, p. 671.

(In Lakhs of Rupees.)

	Paid-up Capital.	Reserve.	Deposits.	Cash and Investment.
Allahabad Bank, Ltd., affiliated to P. and O. Banking Corporation - - -	35	44	11,02	6,81
Bank of Baroda, Ltd. - -	30	24	5,95	3,66
Bank of India, Ltd. - -	100	92	13,11	7,67
Bank of Mysore, Ltd. - -	20	16	2,22	99
Central Bank of India, Ltd. -	168	86	14,81	10,40
Indian Bank, Ltd. (Madras) -	12	13	1,86	38
Punjab National Bank, Ltd. -	31	21	5,09	2,32
Union Bank of India, Ltd. -	39	7	27	46

Of the eight banks, the Union Bank of India, Ltd., appears to be the least satisfactory with only R. 7 lakhs of reserve as against a capital of R. 39 lakhs. The deposits are R. 27 lakhs, while cash and investments aggregate R. 46 lakhs. Of the rest, the reserve position of most of the banks is fair, but not quite as sound as those of the English banks.

Dividends. Nor do the Indian joint-stock banks appear to be earning increasing or even steady profits. The following figures of dividends declared by the leading banks speak for themselves:

	Paid-up Capital.	Dividends per Cent. per Year.					
		1927.	1928.	1929.	1930.	1931.	1932.
	R.						
Allahabad Bank -	35,50,000	18	18	18	18	18	18
Bank of Baroda -	30,00,000	14	12	10	10	10	10
Bank of Mysore -	20,00,000	12	14	14	14	12	6
Bank of India - -	1,00,00,000	10	10	10	10	10	11
Central Bank of India	1,68,00,000	9	6	6	6	6	6
Indian Bank - -	12,79,280	10½	12	12	12	12	4½*
Punjab National Bank	31,26,075	12½	8	8	6	Nil	Nil*

* First half-year.

With the exception of the Bank of India no bank shows an improvement in the dividends, while several show a deterioration, which in the case of the biggest bank is considerable.

Proportion of Cash to Liabilities. In this connexion the proportion of banks' cash to their liabilities on deposits is usually a good index of their strength or weakness. The position for the last five years for which statistics are available[1] is as under:

PERCENTAGE OF CASH TO LIABILITIES ON DEPOSITS.

	1926.	1927.	1928.	1929.	1930.
Joint-Stock Banks:	%	%	%	%	%
(*A*) Capital and reserve over 5 lakhs - - -	15	13	13	14	12
(*B*) Capital and reserve between 1 and 5 lakhs -	24	15	15	13	12

The proportion in the case of banks with over 5 lakhs of capital and reserve shows a continuous decline except for a slight improvement in 1929. But the steady fall in the cash position of the smaller banks is very noticeable. A perusal of such statistics might lead one to expect a large number of bank failures.[2] It is, however, striking that bank failures in India, though not yet a thing of the past, are on a decline in number as well as importance. This can be seen from a study of the table[3] on page 100 in conjunction with similar tables given above.[4]

Thus, during 1926-30, 66 banks failed with a paid-up capital of R. 79 lakhs, or about 7 per cent. of the total paid-up capital and reserve of the existing banks. This

[1] *Statistical Tables Relating to Banks in India* for 1930, p. 7.
[2] Cf. *Indian Currency and Exchange*, by J. M. Keynes, 1913, p. 225.
[3] *Statistical Tables Relating to Banks in India* for 1930, p. 35.
[4] See above, pp. 90 and 94.

STATEMENT SHOWING FAILURES OF INDIAN JOINT-STOCK BANKS, 1926-30.

Year.	Number of Companies Involved.	Capital.		
		Authorised.	Subscribed.	Paid up.
		R.	R.	R.
1926	14	70,80,000	7,05,815	3,98,145
1927	16	69,30,000	6,88,372	3,10,518
1928	13	81,70,000	31,65,740	23,11,717
1929	11	1,50,50,000	24,99,050	8,18,972
1930	12	6,27,40,000	46,55,445	40.59,644

compares quite favourably with 87 bank failures in 1913-17 involving a paid-up capital of R. 5 crores, or 51 per cent. of the total paid-up capital of the existing banks, or with 91 bank failures in 1918-25 with R. 5·13 crores of paid-up capital.

Geographical Distribution of Bank Failures, 1913-30. In connexion with the Indian bank failures, a word may be said relating to their geographical distribution. For this purpose the table on page 101 has been compiled.

Thus the Punjab has the highest number of bank failures, having lost as many as 70 banks out of the 244 banks which have failed in the whole of India during 1913-30. The next provinces in the order of casualties are the United Provinces with 49 failures, and the Bombay Presidency with 39.

Why is it that, in respect of bank failures, these three provinces fared so badly, while some parts, such as the Central Provinces and Burma, have an almost clean record? The explanation seems to lie in the importance of these three provinces as the trade marts of the country. The Punjab is the greatest wheat-producing province of India, the United Provinces taking the next place. Bombay has always been one of the principal ports and a centre for

BANK FAILURES, 1913–30.

	1913.	1914.	1915.	1916.	1917.	1918.	1919	1920.	1921.	1922.	1923.	1924.	1925.	1926.	1927.	1928.	1929.	1930	Total.
The Punjab	6	29	3	2	1	1	1	—	1	2	3	5	6	4	2	1	2	1	70
United Provinces	—	8	4	4	4	1	—	3	—	6	4	1	4	—	7	3	—	—	49
Bombay	4	—	1	5	2	2	1	—	2	1	5	3	2	—	4	2	2	3	39
Madras	—	2	—	1	1	—	—	—	1	2	3	6	—	5	—	2	2	1	26
Bengal	—	—	—	—	—	2	2	—	—	—	5	2	3	—	1	3	1	4	23
Mysore	—	—	—	—	1	1	—	—	—	3	—	—	—	1	—	—	4	—	10
Travancore	—	—	—	—	—	—	—	—	3	—	—	1	—	1	1	1	—	—	7
Delhi	—	2	—	1	—	—	—	—	—	—	—	—	1	1	—	—	—	1	6
Behar and Orissa	—	—	—	—	—	—	—	—	—	—	—	—	—	2	—	1	—	2	5
Bangalore	—	—	3	—	—	—	—	—	—	—	—	—	—	—	1	—	—	—	4
N.W. Frontier Province	1	1	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2
Baluchistan	1	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1
Central Provinces and Berar	—	—	—	—	—	—	—	—	—	1	—	—	—	—	—	—	—	—	1
Burma	—	—	—	—	—	—	—	—	—	—	—	—	1	—	—	—	—	—	1
	12	42	11	13	9	7	4	3	7	15	20	18	17	14	16	13	11	12	244

speculation, especially in cotton and in silver. Therefore, during the Swadeshi movement of 1906-13, most of the new banks were established in these provinces, particularly in the Punjab, in order to take advantage of the growth of the canal colonies there. When the crash came in 1913 and the following years, these were naturally the parts which were the worst hit.

Geographical Distribution of Banks in 1930. This brings us to the question of the geographical distribution of the existing joint-stock banks. But, before considering it, a word may be said about the policy of the joint-stock banks in regard to the extension of banking facilities within the country. In this respect, the Indian joint-stock banks may be contrasted with similar institutions in England and other parts of the Empire, not to speak of other countries. Although the Allahabad Bank—which is the oldest surviving joint-stock bank—was established in 1865, it was not until twenty-three years had elapsed that the first branch was opened at Allahabad. In 1930 (the latest year for which figures are available) there were only 937 head offices and branches (including those of the Imperial Bank of India), scattered over an area of 1,900,000 square miles, to serve a population of 353 millions.[1]

How exactly these banking establishments are distributed in the various provinces may be seen from the table on page 103. It will be seen that the joint-stock banks are fairly distributed in the Punjab, the United Provinces, and the three Presidencies, thanks to the opening of a hundred new branches by the Imperial Bank of India in some districts which had been neglected by the Presidency banks.[2] But there are still large areas where banking facilities are inadequate, and, in this respect, the Indian States are the most backward.

[1] Latest Census figure, 1931.
[2] See below, table on p. 118.

GEOGRAPHICAL DISTRIBUTION OF JOINT-STOCK BANKS IN INDIA IN 1930.

No.	Name of the Province.	No. of Banks.
I.	Madras	170
II.	Punjab	163
III.	United Provinces	107
IV.	Bengal	94
V.	Bombay	78
VI.	Burma	60
VII.	Travancore	59
VIII.	Mysore	29
IX.	North-West Frontier Province	28
X.	Behar and Orissa	28
XI.	Sind	25
XII.	Delhi	19
XIII.	Central Provinces	15
XIV.	Baroda	13
XV.	Kashmir	11
XVI.	Hyderabad	8
XVII.	Assam	5
XVIII.	Central India	5
XIX.	Cochin State	4
XX.	Rajputana	4
XXI.	Baluchistan	3
XXII.	Goa	3
XXIII.	Kathiawar	3
XXIV.	Gwalior	2
XXV.	Ajmer	1
	Total	937

Banking Legislation. Before proceeding to consider the exchange banks, reference may be made to the fact that there is at present no banking legislation in India. Banks are governed by the Indian Companies Act, certain sections of which bear on matters such as registration, audit and preparation and publication of balance sheets and statements of affairs. In regard to certain matters, however, the Act provides special provisions applicable to banks only:[1]

[1] *Indian Banking Committee Report*, 1931, para. 669. Also *Bombay Banking Committee Report*, 1929-30, para. 285.

(1) *Section* 4 prohibits partnership exceeding ten in number from carrying on the business of banking unless it is registered as a company, or is formed in pursuance of an Act of Parliament or some other Act of the Governor General in Council, or of Royal Charter or Letters Patent.

(2) *Section* 32 requires that an annual list of members and of all places of businesses should be prepared and filed with the Registrar.

(3) *Section* 132 with regard to the balance sheet requires that full secured and unsecured debts should be shown separately, but provision made for bad and doubtful debts need not be shown. (The latter have to be shown in the case of all companies other than banks.)

(4) *Section* 136 requires every limited banking company to make a statement in a prescribed form before it commences business and thereafter on the first Monday in August every year.

(5) *Section* 138 provides that local government may appoint one or more inspectors to investigate the affairs of a banking company on the application of members holding not less than one-fifth (in the case of other companies it is one-tenth) of the share issued.

(6) *Section* 145 requires that if a banking company has branches outside India the auditor will have access to such copies of, and extracts from, the books and accounts of any such branch as have been transmitted to the head office of the company in British India.

(7) *Section* 259 requires a banking company which was in existence on the 1st May, 1882, to give notice to account holder of its intention to register as a limited company at least thirty days before registering.

2. EXCHANGE BANKS.

Nature of the Exchange Banks. Of the eighteen exchange banks doing foreign exchange business in India, it is remarkable that not a single one is Indian in origin. They are all foreign banks with head offices abroad and only branches in India. The reason is largely historical. It was about

the middle of the nineteenth century, after the failure of the agency houses,[1] that the necessity was felt for the establishment of institutions for the purpose of financing foreign trade. India's principal trade being with or via England, it was but natural that banks were formed in London with the object of doing exchange business with India. The National Bank of India, under the name of the Calcutta Banking Corporation, did establish itself first in India with rupee capital in 1863, but it assumed its present name in 1864 and transferred its head office to London, converting rupee into sterling capital in 1866. Later France, America, Japan, the Netherlands and other countries followed England's example.[2] Branches of these foreign banks were opened mainly at the Indian ports. Their progress was fairly rapid, and today they form an important and powerful group.

The Principal Five. Of the eighteen exchange banks, eleven do most of their business outside India, while two, viz. Messrs. Thomas Cook and Son (Bankers) and the American Express Company Incorporated, deal chiefly in tourist traffic. There are only five exchange banks which transact a considerable proportion of their business in India. They are the Chartered Bank of India, Australia and China, the National Bank of India, the Mercantile Bank of India, the P. & O. Banking Corporation and the Eastern Bank.[3]

Resources. The following table gives (in thousands of pounds) the resources of the exchange banks for the pre-War year 1913 and from 1919 to 1930:[4]

[1] *Indigenous Banking in India*, pp. 141-2.

[2] Eight banks have head offices in England, three in Japan, two in Holland, two in the United States of America and one each in France, Portugal and Hongkong. (*Indian Central Banking Inquiry Committee Report*, 1931, p. 311.)

[3] *Indian Central Banking Inquiry Committee Report*, pp. 310-11. In *Statistical Tables Relating to Banks in India* for 1930, p. 5, the number of such banks is stated to be six, but their names are not given.

[4] *Statistical Tables Relating to Banks in India* for 1928 and for 1930, p. 1.

Year.	No. of Banks.	Capital, Reserve and Rest.	Deposits in India.	Cash Balance in India.
1913	12	37,825	23,276	4,411
1919	11	53,070	55,769	22,487
1920	15	90,217	56,105	18,881
1921	17	111,632	56,397	17,675
1922	18	112,221	55,038	12,132
1923	18	140,103	51,332	10,859
1924	18	130,464	52,976	12,275
1925	18	138,311	52,909	7,062
1926	18	148,003	53,658	8,046
1927	18	180,919	51,647	6,098
1928	18	187,923	53,354	6,042
1929	18	227,625	49,994	6,785
1930	18	193,616	51,086	5,782

An examination of the above statistics reveals several interesting tendencies. To begin with, ever since 1922 the number of the banks has remained constant at eighteen, but their capital and reserve have shown, with the exception of 1930, almost continuous progress. At the same time their deposits in India—which, by the way, are almost as large as those of the joint-stock banks — so far from increasing, have tended to decrease in recent years. But the position of the cash balances in India is the least satisfactory of all. In 1919 they amounted to £22,487,000, but in 1930 they had fallen to nearly one-fourth, *i.e.*, £5,782,000.

Business. The exchange banks do not finance the internal trade except to a limited extent, but they have a virtual monopoly of financing India's external trade. They are the principal purchasers of bills covering imports and exports, and they provide all the exchange facilities required by the merchants engaged in India's foreign trade. In addition they receive deposits—both current and fixed—and lend against shipping and other documents.

The export trade is usually financed by means of sterling

bills[1] D.A. or D.P., but generally the former in Calcutta and the latter in Bombay, of three months' usance. The import trade is financed mostly through sixty days' sight D.P. bills drawn on the Indian importer in sterling or by means of London bankers' acceptance of ' house ' paper.

Economic Depression and the Exchange Banks. The business of the exchange banks has been badly hit by the recent economic depression. This is clear not only from the fall in the figures of capital and reserve in 1930 but also from the lower dividends paid by most of the exchange banks in 1931 and 1932. The decline in dividends is all the more striking, if it is borne in mind that for the preceding years the dividends were in all cases uniform and in most cases higher than in 1931. The following figures[2] are for the five principal banks already referred to:

	Paid-up Capital.	Dividend per Cent. per Annum					
		1927.	1928.	1929.	1930.	1931.	1932.
	£						
Chartered Bank of India, Australia and China	3,000,000	20¾	20¼	20¼	20¼	14	7*
National Bank of India	2,200,000	20	20	20	20	20	10*
Mercantile Bank of India	1,500,000	16	16	16	16	12	6*
P. and O. Banking Corporation	2,594,160	5	5	5	5	5	5
Eastern Bank	1,000,000	9	9	9	9	6	3*

* First half-year.

Contact with the London Joint-Stock Banks. An interesting phase of exchange banking in India is its recent contact with two of the leading London joint-stock banks, viz. Lloyds Bank and the National Provincial Bank, Ltd. The former took over in 1923 the well-known business of Messrs. Cox and Company, which had in 1922 absorbed Messrs.

[1] Drafts from and to Japan are drawn in yens, but in the case of China they are in rupees. (*Indian Banking Committee Report*, 1931, para. 427.)

[2] *Commerce*, 28th May, 1932, p. 909.

Henry S. King and Company, while the latter affiliated with it the business of Messrs. Grindlay and Company in 1928.[1] Lloyds Bank has broken new ground by opening several branches up-country, notably those at New Delhi in 1927, at Lahore in 1928, and at Amritsar in 1930.

Merits and Demerits of the Exchange Banks. It is easy to criticise the exchange banks and to exaggerate their faults. But an impartial critic must admit that the exchange banks alone are responsible for developing India's trade at a time when no other banking agencies were available. The large resources which these banks have commanded and the prestige they enjoy on account of their age and strength have all been harnessed to India's service, and it must be recognised that that service has been performed not only in the most efficient way, but also at fairly cheap rates. Nevertheless the system has led to certain evil results.

For one thing, the financing of India's imports as well as exports is by means of sterling bills, and Indian importers can do business only on D.P. terms. This is peculiar to Indian trade, and incidentally accounts for the lack of a bill market in the country. As pointed out by the Indian Central Banking Inquiry Committee, 'for the import business of India' the natural bill market is in India and not outside India.'[2] Among other evils may be mentioned the fact that resources raised by the exchange banks in India are not employed in developing Indian industries, that the share of Indians in the country's foreign trade is small, that Indians are not employed in the higher posts of the banks, and that there is alleged discrimination between Indian and non-Indian customers. It is said that satisfactory references are not supplied by the exchange banks in respect of Indian merchants to overseas firms, while, in order to get a confirmed letter of credit opened, even first-

[1] *The Imperial Banks*, by A. S. J. Baster, 1929, p. 233.
[2] *Report of the Committee*, para. 430.

class Indian importing firms are required to make a deposit of 10 to 15 per cent. of the value of goods with the exchange banks, while European houses need make no such deposit.

The exchange banks deny most of the evils laid at their doors, and definitely assert that they treat all customers alike, and, indeed, it is not in their own interests to turn down any business proposition which is intrinsically sound. If, however, some Indian merchants experience difficulty in securing sufficient accommodation, it is very often because they do not offer the necessary balance-sheet evidence of their financial standing.

Exchange Banks' Associations. Associations of the Exchange Banks exist everywhere, *e.g.* Calcutta, Bombay, Madras, Rangoon and Karachi. Membership is open to all banks, Indian and foreign, which do exchange business and are willing to subscribe to the rules and regulations of the Association.[1] The main functions of the Association are 'to maintain a uniform standard for certain routine operations, to secure harmony in the conduct of business and to safeguard the rights of its members.'[2]

Exchange Brokers' Associations. Reference may also be made to the European Exchange Brokers' Associations in Calcutta and to the European Exchange Brokers' Associations in Bombay. The exchange banks deal, in respect of the exchange business, with the members of these associations only, and in Bombay, where the Indian Brokers have not formed an association of their own, with such Indian brokers as are on the approved lists. All brokers, whether Indian or European, have to make a deposit of R. 10,000 in cash or Government securities as a guarantee that they would ratify their contracts, and they are, therefore, called deposit brokers.[3]

[1] At present no Indian bank is a member of the Association.
[2] *Indian Banking Committee Report*, para. 618.
[3] *Ibid.*, para. 622.

3. THE IMPERIAL BANK OF INDIA.

First Banking Amalgamation. The foundation of the Imperial Bank of India by a special Act of 1920[1] marks the first, and so far the only, important amalgamation of banks in India. The Imperial Bank of India took over from the 27th January, 1921, the three Presidency Banks of Bengal (founded in 1806), Bombay (1840) and Madras (1843). Ten years have passed since then, and the revision of the Act, though due in January 1931,[2] is still to come. The future of the bank, in the light of the experience gained, is thus a matter which calls for serious consideration and early solution. The recommendations of the recent Banking Inquiry Committee in this regard are of a far-reaching character in their effect both upon the position of the Imperial Bank of India and that of the Indian money market. To the discussion of this subject we shall return in Chapter VI. But in the meantime the working of the Imperial Bank during the last ten years may be reviewed.

Capital and Reserve. The Bank started with an authorised capital of R. 11,25,00,000 divided into 225,000 shares of R. 500 each, all of which were subscribed, but of which 75,000 shares were fully paid up and 150,000 shares were partly paid up at the rate of R. 125 each. The former were the shares of the Presidency Banks exchanged for the shares of the new Bank, while the latter were the new shares allotted to the Presidency Banks in the same proportion as they held the former shares. The amount of former capital determined the reserve which each Bank undertook to provide. Thus the contribution of the three Presidency Banks was as follows:

[1] Act XLVII. of 1920 passed by the Indian Legislature on the 19th September, 1920.

[2] The Act provides for an agreement between the Bank and the Secretary of State, and this agreement, which was signed on the 27th January, 1921, is for a period of ten years terminable thereafter by either party on one year's notice.

	Capital. R.	Reserve. R.
Bank of Bengal:		
40,000 shares fully paid up -	2,00,00,000	2,00,00,000
80,000 shares 25 per cent. paid -	1,00,00,000	
Bank of Bombay:		
20,000 shares fully paid up -	1,00,00,000	1,00,00,000
40,000 shares 25 per cent. paid	50,00,000	
Bank of Madras:		
15,000 shares fully paid up -	75,00,000	75,00,000
30,000 shares 25 per cent. paid	27,50,000	
Total -	5,62,50,000	3,75,00,000

The reserve, in the case of the Banks of Bengal and Bombay, had previously stood at R. 2 crores and 1 crore respectively, but in the case of the Bank of Madras, after allowing for depreciation, it was regarded as R. 45 lakhs.[1] To bring up this reserve fund to the required amount of R. 75 lakhs the shareholders of the Bank of Madras had to pay a premium of R. 100 per share on the 30,000 new shares allotted to them.[2] So the paid-up capital was, and still is, R. 5,62,50,000, and the same amount represented, as it still does, a reserve liability on the partly paid shares. The Bank had an initial reserve fund of R. 3,75,00,000.

Constitution and Management—By the Imperial Bank of India Act 'the general superintendence of the affairs and business of the bank' is 'entrusted to a Central Board of Governors,' while 'Local Boards established at Calcutta, Madras and Bombay, and at such other places in British India as the Central Board, with the previous sanction of the Governor-General in Council, may determine, shall have powers generally to transact all the usual business of the bank' at such places.[3]

The Central Board of Governors[4] consists of:

[1] Actually it was R. 53,00,000.
[2] The new shares were offered at par to the shareholders of the Banks of Bengal and Bombay.
[3] Sections 24, 25 and 26 of Act XLVII. of 1920.
[4] *Report of the Controller of the Currency*, 1920-21, p. 31.

(*a*) Managing Governors, not exceeding two in number, appointed by the Governor-General in Council on the recommendation of the Central Board.

(*b*) The Presidents, Vice-Presidents and Secretaries of the Local Boards.

(*c*) The Controller of the Currency, or other officer nominated by the Governor-General in Council; and

(*d*) Not more than four non-officials nominated by the Governor-General in Council.

Representatives of any new Local Boards which may be constituted—but none has been yet constituted—may be added at the discretion of the Central Board. The Controller of the Currency and the Secretaries of the Local Boards are entitled to attend the meetings of the Central Board but not to vote.

Kind of Business. The Imperial Bank of India Act of 1920 follows the same lines as the Presidency Banks Act of 1876 in regard to the regulation and restriction of the bank business generally. Under the Act the bank is not permitted to deal in foreign exchange business or grant unsecured overdrafts in excess of R. 1 lakh, and it is prohibited from making advances for more than six months, or upon the security of stocks or shares of the bank, or on the original security of immovable property, or upon promissory notes with less than two independent names. Further, the bank cannot discount bills for, or lend or advance in any way to, any individual or partnership firm an amount exceeding at any one time R. 20 lakhs except against specified securities[1] and goods or documents of title thereto.

But the Imperial Bank of India Act is more liberally conceived than were the Presidency Banks. To instance one

[1] These are 'trustee stocks, funds and securities, securities issued by certain State-aided railways, the debentures and other securities issued by the district boards under the authority of the Legislature.' (*Indian Banking Committee Report*, 1931, para. 34.)

important point, it authorised the opening of a London branch and the borrowing of money in London against the assets of the Bank, although the opening of cash credits, keeping cash accounts or receiving deposits in London is not permitted, unless it is for a former customer of the Imperial Bank of at least three years' standing or for a customer of any of the old Presidency Banks.

London Branch. The London office of the Bank, opened in January 1921, has taken over some, but not all, of the Government business conducted by the Bank of England, viz. the administration of the rupee debt in England and the current account of the High Commissioner for India. The Bank of England continues to administer the sterling debt and the accounts of the Secretary of State. The London branch is also the trustee and registrar of the Government of His Exalted Highness the Nizam of Hyderabad State in respect of the State railways.

There is an Advisory Committee of the Bank in London, consisting of the Governor of the Bank of England, a prominent merchant connected with Indian trade, and the London Manager of the Bank,[1] 'in order that the Manager may have the benefit of expert advice in the conduct of the business of the Bank in London.'[2]

Obligations and Privileges. Under the Act of 1920 the Bank entered into an agreement with the Secretary of State for India on the 27th January, 1921. By this agreement certain obligations were imposed and certain privileges conferred upon the Imperial Bank. As regards the former, the Bank undertook (1) to conduct all general banking business of the Government of India; (2) to open, within five years of its inauguration, a hundred new branches, the location of twenty-five of which were to be determined by the

[1] At present the Committee consists of the Governor of the Bank of England and the Manager of the London office of the Imperial Bank.
[2] *Report of the Controller of Currency for 1924-25*, p. 24.

Government of India; and (3) to conduct the management of the public debt for a fixed remuneration.

On the other hand, the Bank was permitted to hold all the Treasury balances, wherever the Bank had a branch office. It was also given the privilege of transferring its funds through 'currency' free of charge. The Government agreed not to issue any 'Currency Transfers' or 'Supply Bills' between any two places where a branch of the Imperial Bank might be located. The Bank, in return, undertook to offer every facility to the public for the transfer of funds from one branch office to another, at rates not higher than those to which the Controller of the Currency should signify his approval.

Resources of the Bank. The following table shows the resources of the Imperial Bank ever since its foundation in 1921. A fall in the reserve and public deposits is of course due to the recent economic depression.

(In Thousands of Rupees.)

On 31st December	Paid-up Capital.	Reserve.	Public Deposits.	Other Deposits.
1921	5,62,24	4,14,54	6,80,01	65,77,79
1922	5,62,50	4,33,07	14,15,73	57,00,57
1923	5,62,50	4,55,21	8,56,94	74,19,51
1924	5,62,50	4,80,08	7,50,26	76,71,22
1925	5,62,50	4,92,73	5,46,44	77,83,33
1926	5,62,50	5,09,50	6,45,36	73,89,70
1927[1]	5,62,50	5,24,07	7,20,23	72,07,22
1928[1]	5,62,50	5,39,22	7,94,86	71,30,44
1929[1]	5,62,50	5,47,76	7,59,97	71,64,31
1930	5,62,50	5,40,00	7,36,91	76,60,06

[1] The figures of reserve for 1927, 1928 and 1929, as given in the *Statesman's Year Book*, 1932, p. 142, are R. 5,12,50, R. 5,22,50 and R. 5,32,50 respectively. There seems to be an error. The figures given in the above table are those given in the *Statistical Tables Relating to Banks in India* for 1930, p. 1, and also in the *Statistical Abstract for British India*, 1932, p. 336.

To form a better idea of the working of the Imperial Bank, the following table has been compiled from the half-yearly reports and balance sheets:

Half-Year Ending—	Average Rate of Interest.	Net Profits.			Dividend.	Contribution to Reserve.
	Per Cent.	Rs.	As.	Ps.	Per Cent.	Rs.
30th June, 1921	6·038	58,14,792	13	8	16	10,00,000
31st Dec., 1921	5·108	62,27,657	0	9	16	10,00,000
30th June, 1922	7·132	63,52,241	13	2	16	10,00,000
31st Dec., 1922	4·510	52,88,563	11	11	16	10,00,000
30th June, 1923	7·419	76,01,175	11	2	16	12,50,000
31st Dec., 1923	4·5	49,13,332	1	1	16	10,00,000
30th June, 1924	8·05	78,81,700	2	1	16	12,50,000
31st Dec., 1924	5·315	49,05,355	15	9	16	10,00,000
30th June, 1925	6·585	69,39,660	11	7	16	10,00,000
31st Dec., 1925	4·701	38,25,044	8	8	16	5,00,000
30th June, 1926	5·651	74,27,354	6	6	16	10,00,000
31st Dec., 1926	4	35,49,327	13	4	16	7,50,000
30th June, 1927	6·508	76,15,229	13	9	16	7,50,000
31st Dec., 1927	4·956	34,81,731	11	0	16	5,00,000
30th June, 1928	6·945	71,38,557	7	6	16	5,00,000
31st Dec., 1928	5·456	40,51,094	13	3	16	5,00,000
30th June, 1929	6·878	64,59,309	4	8	16	5,00,000
31st Dec., 1929	5·778	40,99,687	11	6	16	5,00,000
30th June, 1930	6·508	65,58,996	8	11	16	5,00,000
31st Dec., 1930	5·277	36,14,852	7	0	16	2,50,000
30th June, 1931	6·735	54,53,969	6	3	12	2,50,000
31st Dec., 1931	7·353	19,45,773	7	6	12	nil.
30th June, 1932	6·022	60,97,600	0	0	12	15,00,000
31st Dec., 1932	4·03	36,95,100	0	0	12	2,50,000

A close analysis of the above table will reveal the depressing fact that the Imperial Bank has failed during the last six years to maintain the progress which it made during the first six years of its existence. The average net profit in the first six years is R. 118 lakhs and in the last six years R. 100 lakhs, while the average annual contribution to the Reserve Fund during the same periods is R. 19,60,000 and R. 12,00,000 respectively. The reason lies in the fact that the first six years were a period of boom, the last six a period of trade depression. The abnormality of the year 1931 is obvious from the exceptionally high rate of interest, lowest net profits and absence of contribution to the Reserve Fund during the latter half of the year. The year 1932 shows remarkable recovery, presumably due to the gold exports.

Implications and Limitations. We must now address ourselves to three important questions. Firstly, what is the constitutional position of the Imperial Bank of India among the central banks of the world? Secondly, what is the position of the Bank, as conceived by the Act of 1920, in the Indian money market? Thirdly, in what manner and to what extent, if at all, have these conceptions been affected by actual practice during the last ten years' working of the Bank?

Taking the first question, it may be said at once that the constitution of the Imperial Bank, as embodied in the Act which brought it into being, falls short in several essentials of that of a central bank of either the English or the Continental or even the South African type. But the disadvantages from which the Imperial Bank suffers need not be exaggerated. In the first place, the Imperial Bank of India Act specifically requires the Bank to act as Government banker, a function admittedly appropriate to a central bank. Secondly, and this may be emphasised, there is nothing in the Act to prevent the Bank from pursuing a policy which may enable it to occupy the position of a

bankers' bank, which again is a function appertaining to a central bank. Of course the Act of 1920 permits the Bank to conduct general banking business, with the consequent possibility of coming into competition with other banks and thereby prejudicing its capacity to play the rôle of a bankers' bank. This, however, is an objection which carries weight only with advocates of English and American central banking policy. On the Continent, commercial banking is not incompatible with central banking business. The answer to the question as to which of the two systems is more suited to Indian conditions, though important, does not affect the possibility of the Imperial Bank becoming a bankers' bank. Where, however, the Imperial Bank of India Act of 1920 does fall below the ideal of central banking legislation is the withholding from it of the powers of note issue, and thereby of the capacity to unify and control the currency and credit policy of the country.

Now as to the other questions regarding the position of the Imperial Bank in the Indian money-market and its actual working. The goal set up for the Bank to aim at was the development of the banking habits of the people. In the first place, the Bank was to be the custodian of the national balances and the manager of the public debt. In the second place, it was to extend banking facilities within the country, by opening new branches. In the third place, with its large resources, both public and private, it was to facilitate the internal movements of funds and ease the seasonal stringency in the money market.

Government Deposits. Taking the first function first, the Indian Finance in its special Banking Inquiry Number of January 1930 (p. 5) complained that Government deposits with the Imperial Bank, 'which a few years ago used to work out to an annual average of Rs. 15 crores to Rs. 20 crores, have declined owing to the Indian Treasury's low cash balances, which have been the marked feature of

Government's finances in recent years. The present annual average might work out to about Rs. 7 crores.' That this is no longer the case may be seen from the recent figures[1] given below, although they are much lower latterly as compared with 1926-27.

(In Lakhs of Rupees.)

	1926-27.	1927-28.	1928-29.	1929-30.	1930-31.	1931-32.
Average -	19,99	10,56	8,02	14,87	13,19	11,77

Establishment of Branches. As regards the opening of a hundred new branches, the Bank duly fulfilled its obligation by 31st March, 1926. In 1926-27 the position was as shown in the following table:[2]

Provinces.	No. of Branches in Existence before January 1921.	Since January 1921.	Total.
Bengal - - -	6	9	15
Behar and Orissa - -	1	8	9
Assam - - - -	—	2	2
United Provinces - -	5	18	23
Punjab - - -	2	17	19
N.W. Frontier Province -	—	3	3
Burma - - - -	3	3	6
Bombay - - -	14	9	23
Madras - - -	18	15	33
Central Provinces - -	3	7	10
Minor Provinces - -	1	2	3
Indian States - -	5	8	13
Ceylon - - - -	1	—	1
	59	101	160

It is striking to note that no new branches have been opened since March 1926. This is explained by the declared policy of the Bank that they wish to consolidate their existing establishments before embarking upon new ventures.

[1] *Reports of the Controller of the Currency*, 1928-29 and 1931-32, pp. 41 and 57 respectively.
[2] *Report of the Controller of the Currency for* 1926-27, p. 20.

The question naturally arises as to how many of these branches have by their new business proved to be a successful proposition. The answer is furnished by the following table:[1]

NEW BRANCHES.

Number of new branches working at a *Profit* (inclusive of interest received from or paid to Head Office Account) -	32
Number of new branches working at a *Loss* (inclusive of interest received from or paid to Head Office Account) -	56

The position is, however, not so bad as it might appear at first sight from these figures. It must be remembered that they relate to the end of 1925, when some of the new branches were hardly a year old and unlikely therefore to show any results. More recent statistics are not available, but the remark of the recent Banking Inquiry Committee that 'several of the branches, however, have not yet reached a profit-earning stage,' seems to suggest that a good number of the fifty-six branches which were unsuccessful in 1925 were no longer so in 1931.

Inland Remittances. Coming to the facilities afforded by the Imperial Bank for inland remittances, it will be recalled that the Act of 1920 provided that all Treasury balances were to be placed in the hands of the Imperial Bank wherever the latter had a branch office. This meant, in the first place, the abolition of the Reserve Treasuries in such areas and, in the second place, the release of large Government funds to be used by the Bank for assisting the money market. As the Bank offers transfer facilities at fairly low rates previously approved by the Controller of the Currency,[2]

[1] *Royal Commission on Indian Currency and Finance*, Minutes of Evidence, 1926, vol. iv., p. 479.

[2] For amounts of R. 10,000 and over - - - 1 anna per cent.
,, ,, of R. 1,000 but less than R. 10,000 2 annas per cent.
,, ,, less than R. 1,000 - - - At the discretion of the bank.

(In 1923-24 the 1 anna rate was reduced to ½ anna per cent. for banks in order to assist them.) (*Report of the Controller of the Currency for* 1920-21, p. 32.)

it does not itself derive much profit from this kind of business, but it is a valuable concession to the constituents. Besides, in actual transactions the public is afforded much greater convenience than they ever had under the old scheme of things. That inland transfers, through the agency of the Imperial Bank, are considerable in volume, in spite of recent diminutions as a consequence of a fall in the price-level, may be seen from the statistics given on p. 121.

Bankers' Bank. Now we come to the consideration of the interconnection between the Imperial Bank and the Indian joint-stock banks. The complaint is sometimes made that[1] the Imperial Bank has come into competition with the Indian joint-stock banks, with the result that money rates have tended to be reduced, to the disadvantage of the latter. This question of competition need not be exaggerated. It is sometimes forgotten that in at least seventy-five places there is no bank except a branch of the Imperial Bank. The question of competition only arises, therefore, in about a hundred places, where there are joint-stock banks as well as branches of the Imperial Bank. And if rates of interest have come down in these places, they only show that joint-stock banks have been deprived of their monopoly to the advantage of the public. Again, if the Imperial Bank has large Government balances for use free of interest which give it an advantageous position over other banks, it must not be lost sight of that it is also subject to certain severe restrictions, such as the prohibition of dealing in the profitable business of foreign exchanges—from which the latter are free. Further, the Government balances themselves have appreciably decreased in recent years.[2]

On the whole the relations of the Imperial Bank with the joint-stock banks appear to be cordial. Most of the Indian joint-stock banks keep accounts with the Imperial

[1] *Royal Currency Commission*, 1926, Minutes of Evidence, vol. iv., p. 479.
[2] See above, p. 118.

REMITTANCE THROUGH THE IMPERIAL BANK.[1]

(In Lakhs of Rupees.)

	1927.		1928.		1929.		1930.		1931.	
	I.	II.	I.	II.	I.	II.	I.	II.	I.	II.
Bengal -	26,52	34,04	31,48	34,10	24,25	27,09	23,34	20,39	17,45	17,86
Bombay -	24,56	21,27	30,20	22,09	33,93	23,29	23,89	14,51	16,48	12,32
Madras -	17,48	15,55	21,55	16,30	22,17	17,48	13,92	10,74	10,07	6,88
Total -	68,56	70,86	83,23	72,49	80,35	67,86	61,15	45,64	44,00	37,06

Drafts and Telegraphic Transfers Paid.

	1927.		1928.		1929.		1930.		1931.	
	I.	II.	I.	II.	I.	II.	I.	II.	I.	II.
Bengal -	38,79	37,36	32,87	39,73	38,31	34,18	34,96	29,21	31,52	27,10
Bombay -	29,36	29,41	30,49	29,52	38,15	31,14	33,11	32,16	34,74	30,87
Madras -	11,14	9,80	11,29	11,00	13,94	11,62	12,31	11,20	13,71	14,93
Total -	79,29	76,57	74,65	80,25	90,40	76,94	80,38	72,57	79,97	72,90

[1] *Report of the Controller of the Currency for* 1931-32, p. 73.

Bank. The total bankers' balances with the Imperial Bank in recent years are shown below.[1]

(In Lakhs of Rupees.)

	Exchange Banks.	Indian Joint-Stock Banks.
31st March, 1928	3,20	81
30th September, 1928	3,71	1,12
31st March, 1929	3,28	81
30th September, 1929	2,02	90
31st March, 1930	1,88	81
30th September, 1930	1,88	1,05

Clearing Houses. The Imperial Bank also conducts the clearing house business in India (and Ceylon) at eleven centres, viz. Ahamdabad, Bombay, Calcutta, Cawnpore, Colombo, Delhi, Karachi, Lahore, Madras, Rangoon and Simla. The actual business of the clearing house is carried on in the offices of the Imperial Bank at these centres, and representatives of other banks meet under the supervision of an officer of the Imperial Bank, which provides the necessary staff. A bank can become a member of the clearing house by the consent of the existing members. The Imperial Bank has no more voice in the matter than any other member of the clearing house.

Imperial Bank of India Amendment Bill, 1927. The foregoing review of the progress of the Imperial Bank would be perhaps incomplete without a brief examination of the Imperial Bank of India Amendment Bill which was introduced in the Indian Legislative Assembly along with the Reserve Bank Bill in 1927. The Imperial Bank Bill sought to free the Bank from some of its existing shackles in regard to business. Some of the salient features of the Bill as modified by the Joint Committee of the Central Legislature are given below.

'(*a*) The Imperial Bank should under arrangements with the Reserve Bank of India act as agent of the latter in places where the Reserve Bank has no branches.

(*b*) The provision that gives power to the Governor-General

[1] *Indian Banking Committee Report,* 1931, p. 34.

to issue instructions to the Bank in respect of certain matters should be repealed.

(*c*) Power should be given to the Bank to establish branches or agencies at such places in India or elsewhere as it deems advantageous.

(*d*) The Central Board should consist of the following Governors: (i.) the President and the Vice-President of the Local Boards established by the Act; (ii.) a Managing Governor appointed by the Central Board; (iii.) a Deputy Managing Governor appointed by the Central Board; (iv.) the Secretaries of the Local Boards established by the Act; and (v.) such number of persons to represent any Local Boards established hereafter as the Central Board might prescribe. The Deputy Managing Governor should be entitled to vote in the absence of the Managing Governor, but the Governors specified in clause (iv.) should not be entitled to vote and they will be given only the power to take part in the deliberations of the Board.

(*e*) The Bank should be authorised to make advances and open cash credits on the security of debentures issued under the authority of a Municipal Board or Committee.

(*f*) The Bank should be empowered, subject to any general or special directions from the Central Board, to make advances and open cash credits on the security of fully paid shares and debentures of companies with limited liability whether registered in India or elsewhere.

(*g*) The Bank should be allowed to advance freely on hypothecations instead of being restricted to making advances only against goods in possession.

(*h*) The Bank should be allowed to buy and sell foreign bills of exchange.

(*i*) The existing restrictions on the borrowing of money in England by the Bank should be removed.

(*j*) The statement of the balance of the Bank should contain the particulars, and should be in the form required by section 132 of the Indian Companies Act of 1913, and the provisions of section 136 of the same Act should apply to a banking company.

(*k*) Various administrative defects in the working of the Bank should be removed.'[1]

[1] *Indian Banking Committee Report*, 1931, para. 527

Two interesting points must be noted. In the first place, provision was made in the above Bill to require the Imperial Bank to satisfy the very important obligations of Sections 132 and 136 of the Indian Companies Act, from which it was free and to which all joint-stock banks were subject. In the second place, some important restrictions, *e.g.* those concerning foreign exchange banks, were left intact in view of the special position which it was thought the Bank would occupy even after the formation of the Reserve Bank.

Banking Education. A word may be said about banking education, which in India is of recent origin and in infancy. In the year 1929 there were only 7 colleges with 1,599 students and 149 schools with 7,069 students receiving education in commercial subjects in the whole country. The existing institutions providing the study of commercial subjects, including banking, are classified by the Indian Banking Committee as follows:[1]

(*a*) Commercial schools preparing students for a certificate or diploma.

(*b*) Secondary schools where commercial subjects are taught as optional subjects or to which separate commercial classes are attached.

(*c*) Universities awarding either a special degree in commerce, or the general arts degree, after a study of economics and other cognate sciences. Theoretical instruction for the B.Com. degree is imparted either in a special department of the University or at a separate institution specialising in such subjects and affiliated to the University. Examples of the former type are furnished by the Department of Commerce established by the unitary teaching Universities of Lucknow and Allahabad and of the latter type by the Sydenham College of Commerce of the Bombay University and the Hailey College of Commerce affiliated to the Punjab University.

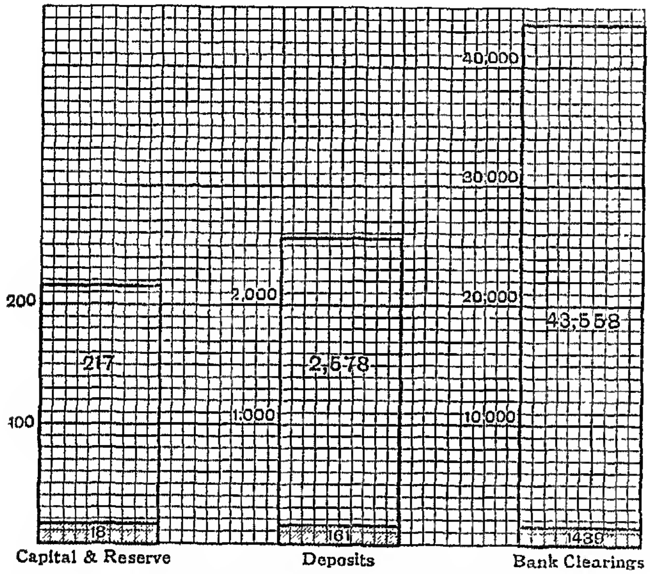
[1] *Indian Banking Committee Report*, 1931, para. 750.

(*d*) The Indian Institute of Bankers.

As the Banking Committee points out, there is at present no co-ordination of efforts between the Universities and the banks in India in the matter of banking education. The Universities have not made any serious efforts to give

JOINT-STOCK BANKING IN GREAT BRITAIN AND IRELAND AND IN INDIA, 1929-30.

(In Millions of £'s.)



N.B.—1. The entire blocks represent Great Britain and Ireland.
2. The shaded portions represent India. (Imperial Bank of India and Indian Joint-Stock Banks. The deposits include those of the Exchange Banks doing business in India.)
3. Actual figures are given inside the blocks and shaded portions.
4. Indian figures are converted into Pounds at 1s. 6d. rate.

practical turn to their theoretical teaching of commercial subjects. The banks have not cared much for either such theoretical instruction or to supplement it themselves by providing practical training. The two honourable exceptions

are the Imperial Bank of India and the People's Bank of Northern India (now in liquidation), but even in their case there is much room for improvement.

Joint-stock Banking in India and the United Kingdom. This review of the development of joint-stock banking may be concluded by a statistical comparison of the position of the Indian joint-stock banks, in respect of their resources, with that of the joint-stock banks in the United Kingdom of Great Britain and Ireland. With this object in view the diagrams on p. 125 have been constructed.

CHAPTER V

THE MONEY MARKET (C), 1926-32

1. POST OFFICES.

Origin and Development. So little is known about the origin and development of the credit facilities provided by the post offices and the increasing part they have played in the Indian money-market in recent years that a brief historical review of the subject will not be out of place. The bank failures of the early nineteenth century led to the opening of the first three Government savings banks in the three Presidency towns of Calcutta, Madras and Bombay in 1833, 1834 and 1835 respectively[1] for the investment of savings of 'all classes British and Native.'[2] Between 1863-65 the management of these savings banks was made over to the Presidency banks. It is interesting to notice that the first regulations permitted a maximum deposit of R. 500 only. Gradually the limit was increased to R. 3,000 with interest at 4 per cent. But since quite a number of persons deposited the sum of R. 3,000 at once, the rule was amended so that no one could deposit in one account more than R. 500 *within a year.* In 1870 District Savings Banks were opened all over India with the exception of Calcutta and the Presidencies of Bombay and Madras. The year 1882 saw the opening of Post Office Savings Banks all over the country except in the Presidency towns, and the number of savings banks consequently increased from 197 to 4,243.[3]

[1] In England the Post Office established a Savings Bank Department in 1861.

[2] *The Post Office of India and its Story,* by Sir Geoffrey R. Clarke, 1921, p. 81.

[3] Clarke, *op cit.,* p 82.

The Savings Bank Panic of 1914. The history of Post Office Savings Banks in India from 1882, the year of their commencement, to the present time may be said on the whole to be one of continual prosperity and expansion. But on the outbreak of the War in 1914 there was a serious panic owing to the news of the temporary confiscation of savings bank deposits by the German Government in Germany. Within a few months about 10 crores of rupees were withdrawn from savings banks in India, but the bold manner in which the Government of India met all demands served to allay all fears and gradually reassured the public mind.[1]

Post Offices as Bankers and Stock-Brokers. The post offices are at present the bankers and stock-brokers of a large number of persons of all classes and especially of the educated and middle classes. They provide facilities for saving and investment in four ways—viz., (1) by receiving deposits in their savings banks, (2) by issuing postal cash certificates, (3) by purchase and sale of Government securities for the public free of charge, and (4) by offering life assurance policies.

Post Office Savings Banks. The number of Post Office Savings Banks is 12,846[2]—much larger than that of joint-stock banks. Savings banks exist all over India in all head offices, all sub-post offices and some branch post offices. They are an undoubted boon to the small investor. The object of Government in establishing them is to provide a ready means for the deposit of savings and so to encourage thrift. Savings banks are not to be used for the purpose of keeping a current account, and the Deputy Accountant General Posts and Telegraphs is empowered to close accounts or, in the case of accounts opened on behalf of minors, to stop the receipt of further deposits should he have reason

[1] Clarke, *op. cit.*, p. 87.
[2] Last official figures, contained in the *Annual Report of the Indian Posts and Telegraphs Department for the Year* 1930-31, p. 19.

to believe that the accounts are being used for a purpose for which the savings banks are not intended.[1] According to the current rules (1932),[2] the net deposits in any year (1st April to 31st March) must not exceed R. 750. The maximum total balance allowed to be held at any time, exclusive of interest for the current year, is R. 5,000 in the case of an adult, and R. 1,000 in the case of an account opened on behalf of a minor by a relative or guardian. Sums as small as four annas (roughly 5d.) can be deposited at a time, as often as desired, but withdrawals are allowed only once a week. A pass-book is issued to every depositor in the vernacular of the district or in English at his option, and it must be produced whenever a deposit or withdrawal is made. Interest is allowed at the rate of 3 per cent. per annum for each calendar month on the lowest balance of complete rupees at credit of an account between the close of the fourth day and the end of the month.

Statistics relating to the Postal Savings Banks for the last five years are as follows:[3]

Year.	No. of Depositors.	Deposits.	With-drawals.	Net Deposits.	Outstandings Inclusive of Interest at End of Year.
		R. '00,000.	R. '00,000.	R '00,000.	R. '00,000.
1926–27	2,518,142	21,17	18,89	2,28	29,51
1927–28	2,606,071	24,00	20,84	3,16	32,67
1928–29[4]	2,020,832	27,22	25,39	1,83	34,49
1929–30	2,304,904	27,28	24,64	2,64	37,13
1930–31	2,478,000	27,82[5]	28,97	−1,15	37,03

[1] *Post and Telegraph Guide*, Official Copy, April 1932, p. 135.

[2] *Ibid.*, pp. 135-46.

[3] Compiled from *Statistical Abstract for British India*, 1932, p. 684. Figures for 1930-31 are taken from the *Statesman's Year Book*, 1932, p. 142.

[4] In *Indian Central Banking Committee Report* (p. 36) the receipts, withdrawals and net deposits for 1928-29 are given as R. 26,22, R. 24,40 and R. 1,82 lakhs respectively.

[5] The latest available figure (August, 1932) of Post Office Savings Banks Deposits in Great Britain is £292,000,000.

From the above table it is clear that with the exception of 1930-31, which was an abnormal year, the figures of deposits invariably exceed withdrawals, and there is, therefore, a credit balance on the working of any one year. Further, it may be noted that both deposits and withdrawals are growing, the figures of withdrawals being excessive in 1928-29 owing to the general calamities of that year (which incidentally explain the fall in the number of depositors in the same year), and in 1930-31 owing to the economic and financial crisis.

The classes which use the Post Office Savings Banks are chiefly Government servants and servants of local bodies and railways, professional men, teachers, students and a few servants. The United Provinces Banking Inquiry Committee had some 10 per cent. of the savings bank accounts in one of the largest offices of the province classified by occupations. The results of the classification show that 'out of 2,600 accounts only 400, or 15·3 per cent., were rural; whilst of that figure a considerable proportion belong to persons whose habits of life are in reality urban, and who are only resident in rural areas by reason of their occupation, such as Government and railway officials, teachers and shopkeepers.'[1]

Post Office Cash Certificates. The Post Office Cash Certificates in India, like the National Savings Certificates in England, were for the first time introduced during the War in 1917-18 with a view to encouraging thrift and saving. They constitute a very popular form of investment for persons of moderate means who wish to combine the maximum yield with minimum risk. The rate of interest free of tax works out on different issues between the maximum of 6 per cent. and the minimum of $4\frac{1}{2}$ per cent. and is at present (1932) at the maximum.[2] Certificates issued between (1) the 2nd April, 1917 and the 1st April, 1923, (2) the 1st

[1] *United Provinces Banking Inquiry Committee Report*, 1929-30, para. 500

[2] With effect from the 3rd January, 1933, the rates have been lowered, the five-year Cash Certificates of the denominations of R. 10 being now available on payment of R. 8 instead of R. 7/8.

April, 1926, and the 30th June, 1927, and (3) the 1st August, 1929 and 14th September, 1930, bore interest at approximately $5\frac{1}{4}$ per cent. per annum; those issued between the 1st July, 1927 and the 31st July, 1929 earned $4\frac{1}{2}$ per cent., while the rest—*i.e.*, those issued between the 2nd April, 1923 and the 31st March, 1926, and all issues since the 15th September, 1930—enjoy 6 per cent. Statistics of issues and discharges for the period 1926-27 to 1931-32 are given below:

(In Lakhs of Rupees.)[1]

Year.	Receipts.	Repayments.	Net Receipts.	Outstandings at End of the Year.
1926–27	7,53	1,82	5,71	26,68
1927–28	6,08	2,06	4,02	30,70
1928–29	4,91	3,31	1,60	32,30
1929–30	7,15	4,45	2,70	35,00
1930–31	11,78	8,34	3,44	38,44
1931–32	14,49	8,33	6,16	44,59

The fall in the receipts in 1927-28 and the following year is explained partly by the reduction in the interest rate to the lowest figure of $4\frac{1}{2}$ per cent. on the 1st July, 1927, and partly by the distressing conditions of 1928-29. Since then the receipts have been growing, stimulated no doubt by the rise in the interest rate to $5\frac{1}{4}$ per cent. with effect from the 1st August, 1929, and to 6 per cent from the 15th September, 1930.

Purchase and Sale of Government Securities. The facilities afforded by the Post Office in regard to the purchase and sale of Government securities are very great.[2] Any person is entitled to invest through the Post Office in any loan issued by the Government of India bearing interest at $3\frac{1}{2}$ per

[1] *Report of the Controller of Currency*, 1931-32, p. 24. In England the yearly total of the sales of Savings Certificates amounted to £64,862,229 in 1931.

[2] This account is based on *Post and Telegraph Guide*, Official Copy, April 1932, p. 146 *et seq*.

cent. or upwards. The maximum limit for such investment, after deducting any sum sold through the Post Office, by an individual in any official year is R. 5,000. An investor may at his option purchase either Government promissory notes or stock certificates. The chief advantage of the latter is the fact that they are not negotiable by endorsement, and are consequently of no value in the hands of a wrongful holder (Rule 46).[1]

The Post Office also undertakes to sell any securities purchased through it, provided that the investor is a savings bank depositor at the time of application, and that if only a portion is specified for sale, the balance of securities left after the sale is of the nominal value of R. 100 or a multiple of R. 100. Investment certificates tendered for sale by an investor are sold outright unconditionally (Rule 47).[2]

Any investor with a savings bank account may tender at a Post Office Savings Bank securities for safe custody up to a limit of R. 22,500. This limit applies only to securities the interest on which is liable to income-tax, unless they are retained in the custody of the Post Office, and not to securities which originally are declared income-tax free (Rule 48).[3]

No fee, commission, or brokerage of any kind is charged for the purchase, sale, safe custody or delivery out of custody of Government securities bought through the Post Office, or for the realisation and remittance of interest on such securities. So long as Government securities purchased through the Post Office remain in the custody of the Accountant-General, Posts and Telegraphs, the interest thereon is exempt from income-tax (Rule 50).[4]

The following statement[5] gives details of the purchase and sale of Government securities through the agency of the Post Office for 1930-31 compared with the year 1925-26:

[1] *Post and Telegraph Guide*, Official Copy, April 1932, p. 146.
[2] *Ibid.*, p. 147.
[3] *Ibid.*, p. 148. [4] *Ibid.*
[5] *Annual Report of the Indian Posts and Telegraphs Department for the Year* 1930-31, p. 20.

	1925-26.	1930-31.	Increase (+). Decrease (−).
Number of investments -	1,818	5,018	+3,200
Nominal value of investments (rupees) - -	34,94,400	90,09,000	+55,14,600
Number of sales - -	1,249	1,056	− 193
Nominal value of securities held in custody of Accountant-General, Posts and Telegraphs, at close of year (rupees)	4,92,87,750	5,78,43,325	+85,55,575

Post Office Insurance Scheme. The Post Office offers insurance facilities of several kinds which are open to all permanent and some temporary Government servants, to servants of local bodies and to permanent servants of all Universities established by Government. The facilities consist of (1) life insurance—*i.e.*, the payment of a fixed sum of money on the death of an individual to his legal representatives or assigns; (2) endowment assurance—*i.e.*, the payment of a fixed sum of money to an individual at some specified future date or to his assigns at his death, if death occurs before specified date; and (3) monthly allowance, the payment of which may begin immediately or at some specified future date. The life insurance and endowment assurance policies have the minimum and maximum limits of R. 100 and R. 10,000 respectively, while the monthly allowance ranges between eight annas and fifty rupees. The premia on the policies are payable monthly, while for monthly allowances either a lump sum payment or payment by monthly instalments extending over a period of at least five years is made.

Growth of the Post Office Insurance Fund. The progress of the Post Office Insurance Fund between 1925-26 and 1930-31 can be seen from the following statement.[1]

[1] *Annual Report of the Indian Posts and Telegraphs Department for the Year* 1930-31, p. 21.

	Up to 31st March, 1926.	Up to 31st March, 1931.
Number of lives insured -	69,918	108,329
	R.	R.
Amount received in premia -	3,86,40,512	6,42,99,060
Amount of insurance - -	11,80,84,756	18,87,03,084
Amount of claims met - -	2,14,84,500	3,50,52,553

2. GOVERNMENT LOAN OPERATIONS.

Method of Issue. The importance of Government loans in the Indian money market is not adequately realised, but can hardly be exaggerated. The method of their issue is quite simple. Whenever Government wants to borrow funds it issues a notification giving the details of the loan—*e.g.*, the issue price, the rate of interest, whether loans are repayable at par or at premium, date of issue and closing and method of repayment. For a Government loan one may apply to the Controller of the Currency, Calcutta, Accountant-Generals Madras and Rangoon, to any branch of the Imperial Bank, or to any Government treasury.

Main Forms. Rupee loans of Government are mainly of three kinds—viz., Stock Certificates, Bearer Bonds and Promissory Notes.

Stock Certificates are registered at the Public Debt Office, and they can be transferred only by registration in that office. Fresh stocks can be issued in case of loss by explaining the circumstances to the Public Debt Office. Interest on Stock Certificates can be collected half-yearly without actually producing them.

Bearer Bonds, like currency notes, are transferable from hand to hand, and are encashable on due date without any formalities. The bonds have coupons attached to them, on the production of which interest is realised when due.

Promissory Notes can be transferred by endorsement alone in the space specially provided for the purpose. They must be produced at the time of collecting interest.

Stock Certificates, Bearer Bonds and Promissory Notes are inter-convertible on payment, except in the case of Stock Certificates, of a fee of 4 annas per cent. on securities not exceeding R. 400 and of 1 rupee per security over R. 400.

Other Forms. Other forms of Government loans in India are Treasury Bills and Postal Cash Certificates. The latter have been described already. The former are issued always at a discount, and are repayable in three, six, or twelve months. Tenders are invited by notification by the Controller of the Currency, Calcutta. They are received by him and also by the Deputy Controller of the Currency, Bombay, the Accountant-Generals of Madras and Rangoon, and by the Currency Officers, Cawnpore, Lahore and Karachi. The lowest tenders are accepted. The Treasury Bills are issued from and paid at the local Head Offices of the Imperial Bank of India, Bombay, Calcutta and Madras, and at branches at Cawnpore, Rangoon, Lahore and Karachi.

The usual objects of the issue of Treasury Bills are conversion of loans, repayment of Treasury Bills and capital expenditure. In issuing them every week Government enters into competition with the joint-stock banks in attracting funds and causing a temporary shortage in the money market.

Current Rupee Loans. The current rupee loans of the Government of India are of two kinds: (1) *Non-terminable*, or those which are repayable only at the option of Government after giving notice; and (2) *Terminable*, or those which Government has undertaken to repay either (*a*) on a certain fixed date, or (*b*) not earlier than a certain fixed date and not later than another fixed date.[1]

Extent of Loan Operations. To gauge the extent of the loan operations of the Government of India during the last

[1] *Government Securities Manual*, 1921 (with latest correction slips), p. 8.

five years, the following three statements[1] furnish full particulars:

The first statement relates to India's internal debt. It will be seen that between 1928 and 1932 the internal obligations gradually increased by R. 139 crores, from R. 566·93 to R. 706·40 crores—an increase of about 25 per cent. per quinquennium. During the same period Treasury Bills in the hands of the public rose from R. 8 to R. 48 crores, while those in the Paper Currency Reserve fell from R. 32 to R. 6 crores in 1931 and then shot up to R. 50 crores in 1932. A point of special interest is the gradual decline in the Provincial Balances from R. 10·48 crores in 1927 to R. 3·82 crores in 1932.

The second table relates to India's external debt, which is all in sterling. The sterling loans, except for a small decline in 1932, rose at an increasingly rapid rate by nearly R. 47 crores from R. 459·44 crores on the 31st March, 1928, to R. 506·12 crores on the 31st March, 1932—an increase of about 10·2 per cent. in the quinquennium.

Comparing India's internal with external debt it is clear that the former is larger in magnitude than the latter, but the excess on the 31st March, 1932, was only R. 200 crores out of a total combined debt of R. 12,13 crores. In the official year ending 31st March, 1932, however, India's internal debt increased by 55 crores, while her external debt decreased by 12 crores.

The third statement gives the interest-yielding assets and shows the excess of interest-bearing obligations not covered by the above assets. The latter has been increasing since March 1929, but increased most during the year ending 31st March, 1931, when it rose from R. 177·40 to R. 196·97 crores. It is of interest to note that the capital advanced to Provinces and to Indian States shows a continuous though not spectacular progress during the five years under review.

[1] These are put together in the *Report of the Controller of the Currency for* 1931-32, pp. 76-77, but are split here to facilitate study.

Putting all the three statements together, on the 31st March, 1932, out of a total debt of R. 1212·52 crores, 798·24 crores were productive in railways, telegraphs and irrigation; 207·41 crores were unproductive; 41·91 crores on account of cash, bullion and securities held on Treasury account; and 164·96 crores were incurred on behalf of Provincial Governments.

STATEMENT SHOWING THE INTEREST-BEARING OBLIGATIONS OF THE GOVERNMENT OF INDIA INCURRED IN INDIA AT THE CLOSE OF EACH FINANCIAL YEAR.[1] (A.)

(In Crores of Rupees.)

	31st March.				
	1928.	1929.	1930.	1931.	1932.
In India:					
Loans[2] - - - - -	72·25	390·73	405·11	417·24	422·70
Treasury Bills in the hands of tl public - - - -	7·59	4·00	36·04	55·38	47·54
Treasury Bills in the Paper Currency Reserve - - -	31·94	39·15	29·22	5·89	49·66
Ways and Means Adv - -	—	—	—	—	9·50
Total Loans, etc. - - -	411·78	433·88	470·37	478·51	529·40
Other obligations:					
Post Office Savings Banks - -	32·67	34·49	37·13	37·03	38·22
Cash Certificates - - -	30·70	32·30	35·00	38·43	44·59
Provident Fund, etc. - - -	55·82	60·52	65·41	70·33	72·86
Depreciation and Reserve Funds	25·48	31·09	30·18	21·39	17·51
Provincial Balances[3] - - -	10·48	10·43	10·21	6·09	3·82
Total other obligations - -	155·15	168·83	177·93	173·27	177·00
Total in India - - -	566·93	602·71	648·30	651·78	706·40

[1] There are slight discrepancies in the figures given in the *Reports of the Controller of the Currency for* 1930-31 (pp. 78-79) and 1931-32 (pp. 76-77). Obvious print errors have been corrected.

[2] These figures represent the nominal amounts of loans outstanding and also include small amounts of expired loans which do not bear interest.

[3] The figures represent those of Provincial Balances which bear interest either because they form part of the old Famine Insurance Fund or the present Famine Relief Fund, or because they have been placed with the Government of India on fixed deposit.

STATEMENT SHOWING THE INTEREST-BEARING OBLIGATIONS OF THE GOVERNMENT OF INDIA INCURRED IN ENGLAND AT THE CLOSE OF EACH FINANCIAL YEAR. (B.)

(In Millions of Pounds.)

	31st March.				
	1928.	1929.	1930.	1931.	1932.
In England:					
Loans[1] - - -	272·32	283·31	289·03	316·81	313·34
War contributions -	17·28	16·72	16·72	16·72	16·72
Capital value of liabilities undergoing redemption by way of terminable railway annuities - -	54·79	53·35	51·86	50·32	48·72
India Bills - -	—	—	6·00	—	—
Imperial Bank of India Loan - - -	—	—	—	4·05	—
Provident Fund, etc. -	·19	·43	2·54	·69	·81
Total in England	344·58	353·81	366·15	388·59	379·59
Equivalent at 1s. 6d. to the rupee - -	459·44	471·75	488·20	518·12	506·12
Total interest-bearing obligations	1,026·37	1,074·46	1,136·50	1,169·90	1,212·52

STATEMENT OF INTEREST-YIELDING ASSETS HELD AGAINST THE INTEREST-BEARING OBLIGATIONS OF THE GOVERNMENT OF INDIA (*vide* STATEMENTS A AND B).

(In Crores of Rupees.)

	31st March.				
	1928.	1929.	1930.	1931.	1932.
Interest-yielding assets:					
(i.) Capital advanced to railways	668·60	700·69	730·79	743·98	752·33
(ii.) Capital advanced to other commercial departments -	20·73	21·81	22·70	23·65	25·48
(iii.) Capital advanced to Provinces	126·34	137·52	142·60	151·82	164·96
(iv.) Capital advanced to Indian States and other interest-bearing loans - - -	13·91	15·49	17·65	19·45	20·43
Total interest-yielding assets	829·58	875·51	913·74	938·90	963·20
Excess of interest-bearing obligations not covered by the above assets -	172·53	170·61	177·40	196·97	207·41

[1] These figures represent the nominal amounts of loans outstanding and also include small amounts of expired loans which do not bear interest.

Issue of Rupee and Sterling Loans. The rupee and sterling loans issued during 1927-32 are detailed in two statements below.

GOVERNMENT OF INDIA RUPEE LOANS, 1927-32.[1]

Name.	Amount Outstanding on 31st Oct., 1931.	Date of Issue.	Conditions of Repayment. (Repayment will be at Par.)
	R.		
1. 4 per cent. Loan, 1934-37	19,53,79,100	18th July, 1927, at R. 94-8	Repayable not before 1st Aug., 1934, and not later than 1st Aug., 1937, on 3 months' notice
2. 4½ per cent Loan, 1955-60	9,05,69,700	7th Aug., 1928, at R. 94	Repayable not before 15th Sept., 1955, and not later than 15th Sept., 1960, after 3 months' notice
3. 4½ per cent. Bonds, 1934	25,98,05,600	At R. 97-8	Repayable not before 15th Sept., 1934
4. 5 per cent. Loan, 1939-44	28,22,85,800	20th June, 1929, at R. 96-8	Repayable not before 15th July, 1939, nor later than 15th July, 1944
5. 6 per cent. Bonds, 1933-36	29,70,80,900	28th July, 1930, at par	Repayable not before 15th Aug., 1933, nor later than 15th Aug., 1936
6. 6½ per cent. Treasury Bonds, 1935	16,95,16,600*	15th Sept., 1931, at par	Repayable on 15th Sept., 1935

* By cash—R. 14,91,02,000.

It will be particularly noted that the terms offered in the case of the 1931 rupee loan represent a rise of nearly ½ per cent. in the Government borrowing rate, but the 'general market conditions when the loan was floated were by no means favourable. Trade was depressed and a general want of confidence prevailed. The stock market, particularly in Bombay, was disorganised and dominated by political

[1] *The Investor's Indian Year Book*, 1931-32, p. 5.

GOVERNMENT OF INDIA STERLING LOANS, 1927-32.[1]

Amount Outstanding.	Interest per Cent.	Date of Issue.	Date of Redemption.	Interest Payable on—
£ 6,000,000	6	Feb. 1930	On 15th June, 1932, at par or at £101 per cent., on 15th June, 1933	15th June and 15th Dec.
7,000,000	6	May 1930	On 15th June, 1935, at par or any interest date after 15th June, 1933, at par	15th June and 15th Dec.
12,000,000	6	Oct. 1930	On 15th Oct., 1937, at par or any interest date after 15th Oct., 1935	15th April and 15th Oct.
17,181,249	5½	April 1931	On 15th July, 1938, at par or on any interest date after 15th July, 1936	15th Jan. and 15th July
10,000,000	6	May 1931	On 15th Dec., 1934, at par or at any time after 15th Dec., 1933	15th June and 15th Dec.

(In all cases the buyer pays the accrued interest in addition to the prices quoted in London.)

excitement. When the loan was announced it was freely rumoured that an attempt would be made to boycott it, and much propaganda was disseminated with that object. In spite of these adverse factors the loan was on the whole successful.'[2]

Fall in the Prices of Securities. Recent years have been marked by the general fall in the prices of Government securities. The table on page 141 speaks for itself.

The conclusion from the quotations given is irresistible, as many holders have painfully come to realise that even Government securities are not immune from the effects of

[1] *The Investor's Indian Year Book*, 1931-32, p. 6.
[2] *Report of the Controller of the Currency for* 1930-31, p. 25.

REPRESENTATIVE RUPEE SECURITIES OF THE GOVERNMENT OF INDIA.[1]

	3½ % (Subject to Income-Tax).		5 % 1933 (Free of Income-Tax).		5 % 1945-55 (Free of Income-Tax).		4 % 1960-62 (Subject to Income-Tax).	
	Highest.	Lowest.	Highest.	Lowest.	Highest.	Lowest.	Highest.	Lowest.
1926–27	79 1/16	74 3/8	105 1/8	102 5/8	110 1/4	104 9/16	90 1/16	86 9/16
1927–28	79 5/16	74 3/8	103 3/4	102	108 13/16	105 13/16	90	87 9/16
1928–29	75 5/8	71	102 15/16	100 1/2	106 11/16	102 1/16	88 1/4	83 3/8
1929–30	72 5/16	63 5/16	101	99 7/8	103 3/4	100	84 5/8	75 7/8
1930–31	68 7/8	61 5/16	100 1/2	98 3/4	101 9/16	99 1/4	77 1/8	73
1931–32	63 1/2	51	100 1/8	95 5/8	101 11/16	88 1/2	75 1/4	58 1/4

world trade depression and uncertainty. Commenting on the position of the 5 per cent. loan of 1929 Sir George Schuster remarked: 'If it had not been for two unfortunate factors over which we had no control, I am certain that last year's loan would now be standing at a handsome premium.[2] These factors have been, first, the wave of dear money which swept over the world, culminating in a 6½ per cent. bank rate in England . . . and, secondly . . . the fears in London as to the future political stability of India.'[3]

Government Assurance. All fears, however, in regard to the repudiation of Indian sterling debt must be set at rest by the recent Government assurances on the subject. The Secretary of State for India stated on the 27th January, 1930, in answer to an inquiry as follows:

'India sterling securities, while issued under the authority of Act of Parliament and charged on the revenues of India, are not guaranteed by the British Government. Like many other stocks, including stocks issued by a Dominion under the Colonial

[1] *Report of the Controller of the Currency for* 1931-32, p. 78.
[2] It actually stood one point below its issue price.
[3] Sir George Schuster's Budget speech, 1930-31.

Acts, they are by law constituted stocks in which British trustees are authorised to invest; but that is a separate question. The Secretary of State cannot undertake to deal with hypothetical contingencies; but at the same time in view of the tenor of your letter, I am directed by him to say that His Majesty's present Government have no intention of allowing a state of things to arise in India in which a repudiation of debt could become a practical possibility, and that it is inconceivable to him that, in dealing with any scheme of constitutional change in India, Parliament could fail to provide safeguards, should they be needed, against a breach of the conditions under which these loans were issued. In view of the interest to the general public of the questions which you have raised, this reply is being published in the Press.'[1]

Later the Prime Minister, in answer to a question in the House of Commons on the 26th June, 1931, said:

'The financial strain on the resources of the Government of India, already great owing to the world economic depression, has been accentuated by uncertain ties which have attended the discussion of constitutional changes and more particularly the consideration of the provisions to be embodied in the new Constitution to ensure financial stability. It will not be possible to introduce the proposed constitutional changes, if financial stability is not assured, and His Majesty's Government are determined not to allow a state of affairs to arise which might jeopardise the financial stability and good government of India for which the Secretary of State is at present responsible. They have therefore decided that, should the need arise, they will apply for the authority necessary to enable them to give financial support under suitable conditions to the Government of India for the purpose of maintaining the credit of the country pending the settlement of the constitutional problem and the formulation of provisions which will ensure the maintenance of India's credit in the future.'[2]

Loan Operations of Public Bodies. We have been so far dealing with Government loan operations. An idea of the

[1] *The Stock Exchange Official Intelligence*, 1932, p. cxlvi.
[2] *Ibid.*, pp. cxlvi-cxlvii.

loan operations of leading public bodies like municipalities, corporations and trusts may be obtained from the following table:[1]

Name of Local Body.	Amount of Loans Outstanding as on the 30th Sept., 1931. R.
Calcutta Corporation	8,36,44,767
Calcutta Port Trust	22,04,24,200
Calcutta Improvement Trust	2,31,00,000
Bombay Municipality	17,69,55,368
Bombay Port Trust	13,61,89,556
Bombay Improvement Trust	16,53,94,680
Madras Corporation	88,11,000
Madras Port Trust	1,59,11,357
Karachi Municipality	83,56,000
Karachi Port Trust	4,19,65,000
Rangoon Corporation	3,37,67,500
Rangoon Port Trust	4,80,28,680

3. THE STOCK EXCHANGE.

The preceding discussion of loan operations naturally leads to that of the Stock Exchange. Stock brokers are not available everywhere in India, and stock exchanges do not exist even in all big commercial centres. There are only two stock exchanges, situated in Bombay and Calcutta, the stock exchange in Madras being defunct.

The Bombay Stock Exchange. The Bombay Stock Exchange, known as the Native Share and Stock Brokers' Association, is the oldest in the country; its formal constitution dates from the 3rd December, 1887, although it existed much earlier. It is housed in Sir Dinshaw Petit Brokers' Exchange Hall, which was bought by the Native Share and Stock Brokers' Association from its funds in 1899. In November 1917 a second Stock Exchange, called the Bombay Stock Exchange, was started, but it proved still-born.

[1] Compiled from tables in the *Investor's Indian Year Book*, 1931-32 (pp. 7-14). Figures of sterling debt have been converted into rupees at 1s. 6d. per rupee.

Inquiry Committee, 1923. After the termination of the War the boom in the market was characterised by a flotation of many new companies and heavy speculation in shares in Bombay during the years 1919-22 which were bound to result when the crash came, as it soon did, in heavy losses and great discontent. There was much criticism of the stock exchange operations in Bombay, and public confidence in the Native Share and Stock Brokers' Association was greatly shaken. On the 14th September, 1923, the Government of Bombay appointed a Committee 'to inquire into the constitution, government, customs, practices, rules, regulations, and methods of business of the Native Share and Stock Brokers' Association of Bombay, and to investigate any such complaints of the public and to make any such inquiries with reference to any of the aforesaid matters or any other matter appertaining to the aforesaid Association as the Committee may deem proper, and thereafter with a view to protecting the investing public against the interested or irregular control of business to formulate such definite proposals for the future constitution, control, direction and regulation of the aforesaid Association as the Committee may deem proper.' The Committee consisted of seven members, including Sir Wilfrid Atlay as Chairman.

The report of the Atlay Committee was published early in 1924 along with the Minority Report of one member, Mr. B. J. Desai. The Majority Report made a number of recommendations regarding the strengthening of discipline, extension of business hours, curtailment of holidays, annual election of the Board, annual declaration by members as to the class of business they propose to undertake, abolition of sub-brokers, use of a common form of transfer, abolition of blank transfers on the reduction of the stamp duty, etc. The Minority Report laid particular stress on the reduction of holidays, and made certain suggestions of a minor nature.

The Association accepted the Minority Report, which left the position much the same as before.

Heavy speculation in certain mill scrips led to a crisis and a good deal of agitation again in 1925 for a thorough reform of the rules of the Association. The result was new draft rules ensuring against wild speculation and recurrence of such crises.

Membership. The membership of the Association is open to all Indians and to any British subject who himself or whose father has resided in the Bombay Presidency for ten years prior to his application for the said membership.[1] The number of share and stock brokers at present (1931) is 446.

To ensure a high level of business integrity the admission requirements are very strict. Great care is taken to see that a prospective member has done nothing in the past to compromise his credit. Men of substance with landed property are naturally preferred. On receipt of an application objections are freely invited, which are treated as confidential. Every application must be supported by at least two-thirds of the members before it can at all be considered. The election of a member is by ballot, and if any application is rejected, without assigning any reason, it is not entertained again for a period of two years. The entrance fee is fixed at R. 30,000, and is known as the value of a membership card. The number of such cards is limited by a resolution of the general body, who may refuse admission.

Members' Conduct. Stringent rules and machinery exist in regard to the conduct of members and for dealing with cases of default, fraud, and manipulation. As regards default, there is a 'Committee of Defaulters,' consisting of

[1] Cf. A foreigner is not admitted as a member of the London Stock Exchange until he has resided within the British Dominions for ten years and naturalised himself within such Dominions for a period of five years next preceding the date of his application. (*Vide* Rule 21 (3) of the London Stock Exchange Rules.)

six members, to adjudge cases. The numbers of defaulters during 1921-30 were as follows:

List of Defaulters.

1921	15
1922	11
1923	3
1924	8
1925	5
1926	1
1927	3
1928	1
1929	5
1930	3

The moment a member is declared a defaulter he has to surrender all his account books, papers, etc., to the committee. He has also to furnish his balance sheet and a list of the business dealings which remain to be cleared.

The rules regarding business fraud definitely provide that there should first of all be actual delivery in all transactions, fictitious orders being prohibited, on pain of a heavy penalty. To safeguard the interest of an average investor, it is laid down that all orders, big or small, must be accepted, and there should be no 'bucket shop' dealings or trading in differences of quotations. A broker may do any business on his own account, but never indulge in an improper use of a customer's securities. To detect any fraud, the accounts are open to inspection and scrutiny of the Board of Directors. A routine is prescribed and there is complete uniformity in the maintenance of registers. A very regular strict day-to-day account has to be kept of a broker's purchases and sales.

There is an Arbitration Committee consisting of sixteen members of the Exchange, which is empowered to take up cases of fraud and to expel any member found guilty under the rules. A member once expelled cannot be reinstated unless the offence is one of omission, not fraud. It is to

the credit of the Bombay Exchange that there are no acts which can be termed as 'detrimental to the interests and welfare of the Exchange.' By common consent and long usage the business moral tone maintained is sufficiently high.

Kinds of Members. Unlike the London Stock Exchange, the Bombay Stock Exchange has no separate jobbers and brokers. Its members are all brokers. Before 1927 there was no restriction in the nature of the business that a broker could do. . But now all members must be brokers without any subsidiary business interests in any other association. On the whole, about one-fourth of the active members are commission agents also.

Methods of Business. Every broker on the Bombay Share Bazar is entitled to four authorised clerks, and with their assistance he carries on his dealings on the Exchange. Every member or his clerk must possess a memorandum book, in which transactions are entered on the spot in pencil. This forms the foundation of all future entries or book-keeping. In his office a broker maintains a *souda* book which is posted in ink at the close of every day. It is the journal recording all transactions in a chronological order from day to day. The journals are of two kinds—one for the broker and the other for the clients. The former is the record of all the transactions with brokers only, the latter shows the dealings entered into on behalf of the clients in the Bazar, in their names. The broker's book is known as the contract book, and it forms the basic document in cases of dispute. It is, therefore, in very elaborate form, its columns being devised with a view to eliminating all possible misquotations and misunderstanding. As regards the client's book, the only difference is that it is not so detailed as the contract book. For instance, it has no signature column, because most of the clients are not on the spot, and the register cannot be sent to every one from

day to day. Again, as the orders of a client are conveyed by correspondence, the precaution to write in words also is dropped; the amount is written in so many places that manipulation is practically impossible.

Kinds of Clients. The broker's clients are of various kinds. First there are the pure and simple investors who set aside a part of their income and purchase shares whenever convenient with the sole aim of getting an income. They believe in the 'rainy day' theory and have no intention of selling their interest in the ordinary course of things. Secondly, there are moneyed men who invest their money in financing needy brokers for short periods of usually one month at high rates. Thirdly, there are keen business experts with funds at their disposal, who invest and reinvest and follow the bears of the market. They are speculators behind the brokers, waiting for the market to touch the bottom, when with all their resources cornered they lift the prices through the roof.

Clearing House. The Bombay Share Bazar has no Clearing House of its own. The Bank of India performs the functions of a Clearing House for the Association, which pays to the bank R. 55,000 annually. This amount is raised by members of the Clearing House subscribing R. 10 per month, and levying 1 pice per cent. on market rates both for payment and delivery. A charge equivalent to R. 5 per R. 1,000 is also made by the Bank of India for buying in and selling out deficiencies. The bank obviously makes no direct profit, but is benefited indirectly by a large clientèle for its regular banking business.[1]

Bombay Stock Exchange Holidays. The Bombay Stock Exchange is closed for about 100 days in the year. For instance, in 1932, besides Sundays, there were forty-four

[1] Much of the preceding information on the working of the Bombay Stock Exchange is taken from the thesis on *Methods and Machinery of Investments in India*, by Mr. S. A. Haque, M A., University of Bombay, by the courtesy of Professor C. N. Vakil.

holidays—viz., January 1; February 9; March 5, 21, 22, 23, 25, 26, 28; April 15, 17, 18, 20; May 13, 17; June 14; July 14, 16, 17; August 8, 15, 24; September 1, 4, 5, 6, 7, 12, 13, 25; October 9, 27, 28, 29, 30; November 13; and December 24 to 31 (both days inclusive).

Stock Exchange Operations, 1927-32. Having seen something of the mechanism of the Bombay Stock Exchange, a brief notice of its operations during the last five years may be taken. The year 1927 was one of general improvement, but the textile industry experienced a severe depression. Some mills were liquidated and others ceased to work—a matter of grave concern to Bombay in general and the Stock Exchange in particular, for their prosperity is closely bound up with the conditions in the local textile mills. The industrial market in general, however, showed greater activity than for some years past. A point of special interest to note is that in 1927 Exchange operations began for the first time to be conducted in conformity with the new rules approved and sanctioned by Government. In 1928 the trade depression spread from textile to other industries, and from 1929 onwards there occurred an unprecedented slump in the Indian securities market.

'On the 10th day of July, 1930, there was a heavy pressure of selling and the buying power seemed almost absent. Prices of many securities fell rapidly and falling prices created great consternation among investors and speculators. Business was therefore suspended by our exchange for three months from 11.7.1930 to 10.10.1930, since in panics securities are worth only what one can actually sell them for. The suspension of business led to numerous unfounded complaints; and information of a most unreliable character, published in a section of the press by designing parties, created needless nervousness. It is satisfactory, however, to record that the decision and action we took were approved in the commercial and financial circles, and even by the Government, who were ready to sanction further suspension,

if needed. Be it recorded to the credit of our exchange that there was hardly any failure worth mentioning during these troubled and depressed times.'[1]

The unfortunate conditions of the Bombay Exchange may be compared with those of New York. The following observations of the President of the New York Stock Exchange contained in his address dated the 15th December, 1931, are significant:

'The unwillingness on the part of the public to buy securities has been the real trouble with our market and the cause of declining prices. That there were no willing buyers is easily explained by prevailing business conditions. I do not doubt that many of you have said to yourselves in recent times that such and such a stock looked cheap or that it was selling at an absurd price and yet you hesitated to buy. This was because you were not sure that the worst was over and you still expected that the next day might bring forth bad news. Confidence is bound to return and, when it does, prices will rise. I feel that the basic causes of the depression have been intelligently studied and that in all quarters of the world responsible people have been working towards constructive ends. I have no doubt of their ultimate success, and have supreme confidence in the future of our own country and its great business and industrial organisation.'

Government Securities. Turning to the Government securities market, it has been specially marked by unprecedented dullness in recent years. For days together the brokers were unable to effect sales of Government securities, and we have it on the authority of the President of the Native Share and Stock Brokers' Association that '3½ per cent. paper, 4 per cent. loan of 1960-70, and 5 per cent. of 1945-55 were absolutely unsaleable now and then even at rates lower than the nominal rates quoted on the exchange.'

This state of affairs was obviously the result of increasingly high rates at which State loans were floated, the maintenance

[1] Extract from the Annual Address of the President, Native Share and Stock Brokers' Association, Bombay, 10th July, 1931.

of a high bank rate, the policy of the Government in restricting open market operations in Government securities, and the nervousness and uncertainty engendered by political agitation. These causes were themselves due to other causes, which cannot be explained here. The position has latterly shown distinct improvement, and at the end of 1932 securities in general, and Government securities in particular, stood clearly at a higher level than in the beginning of the year.

The Calcutta Stock Exchange. At first the Calcutta share market depended for its regulation on the market custom. The Calcutta Stock Exchange was formed in 1908. Rules and regulations formed were gradually modified in the light of experience. The Calcutta Stock Exchange Association, Ltd., which took over the unincorporated Association bearing the same name, is only ten years old. It was registered under the Indian Companies Act VII. of 1913 on the 7th June, 1923. The main object of the Association is 'to facilitate the transaction of business on the Stock Exchange and to make rules and byelaws regulating the mode and conditions in and subject to which the business on the Stock Exchange shall be transacted and the conduct of the persons transacting the same and generally for the good order and government of members of the Association.'

The new building which the Calcutta Stock Exchange now occupies is one of the finest; it was opened on the 6th July, 1928. The rooms of the Association are open only to members, and such partners and assistants as are duly admitted, from 10.30 a.m. to 5.30 p.m. daily, except on such days as the Committee of the Association may declare to be Stock Exchange holidays.

The Association has an authorised capital of R. 3,00,000 divided into 300 ordinary shares of R. 100 each fully paid up; no member is entitled to hold more than one share. The subscribed capital, according to the latest balance sheet (30th September, 1932), is R. 2,22,000, accounting for 222

shares, of which 20 are forfeited. On the 1st October, 1930, the Association had 214 members (214 firms with 512 representatives); on the 30th September, 1931, the number of members fell to 204 with a personnel of 505; while on the 30th September, 1932, the number was 202 with a personnel of 502. The reduction was due to ten firms having ceased to be members of the Association during 1930-31 and four in 1931-32, but two new firms became members in the latter year. Further, the year 1930-31 has been unfavourable for both the Indian Stock Exchanges, inasmuch as it witnessed a heavy fall in the price of Government securities. The loss on the revaluation of the Calcutta Stock Exchange Association's investments amounted to R. 42,701-10-0.[1]

The year 1931-32, however, showed a considerable rise in the price of Government securities, and on revaluation of the Association's investments there was a profit of R. 79,020-13-0. The Association in its tenth annual general meeting held on the 21st December, 1932, resolved to distribute a bonus of R. 250 per share for the year ended 30th September, 1932 (as compared with R. 100 in the preceding year) to registered shareholders as on the 13th December, 1932. The bonus is payable on or after 6th January, 1933.[2]

The Committee of the Calcutta Stock Exchange has, by a rule, an equal proportion of Europeans, Marwaris and Bengalis. Like the Stock Exchange in Bombay, members of the Calcutta Stock Exchange are subject to by-laws of the Association as well as to customs and usages which have often the force of rules. As for their business, an idea may be had from the following description:

'The market customs differ from those of most other stock exchanges, since there are no settlement days, delivery is due

[1] *The Calcutta Stock Exchange Association, Ltd., Report and Accounts* for the year ended 30th September, 1931, p. 2.
[2] *Ibid.*, 30th September, 1932, pp. 1 and 2.

the second day after the contract is passed, and sales of securities are effected for most part under blank transfers. It has not got jobbers like the London Stock Exchange, but the brokers mostly combine the function of dealers.) The principal business transacted is connected with the shares in Jute Mills, Coal Companies, Tea Companies registered in India, miscellaneous industrial concerns (such as paper, flour, etc.), Railway Companies and Debentures, the latter representing those of industrial concerns and Trustees Investment Securities, namely Municipal, Port Trust, and Improvement Trust Debentures.

'A general meeting of the shareholders annually elects a Committee, which elects several Sub-Committees and Honorary Office Bearers—the President, two Joint Honorary Treasurers and the Honorary Secretary. The Committee is empowered to do all work on behalf of the Association, which in its turn delegates powers to the Sub-Committees and the Honorary Office Bearers. The Committee also adjudicates in disputes between members, thus enabling the members to avoid Law Courts in most cases.'[1]

The Madras Stock Exchange is at present defunct. All the information available can be summarised in a few lines. It was originally opened on the 6th April, 1920. It had about 100 members, but of them only 25 were working members. The card for admission as a member cost R. 1,000; besides, there was an annual subscription of R. 100. Each working member had to deposit a security of R. 3,000. The business of the Madras Stock Exchange consisted chiefly in dealings in mill shares. But the business was never much and the number of working members gradually fell to three or four. The Stock Exchange was therefore closed, and there does not appear to be much chance of its being revived in the near future.

The fact is that there is little speculation going on in Madras. The principal line of business is investment, which is at present conducted by three firms—viz., Messrs. Huson

[1] *The Indian Year Book*, 1932, p. 713.

Tod and Co., Messrs. James Maconochie and Co., and Messrs. Stephen and Co. Those who want to buy or sell shares go to them, and they are doing fairly good business. They also do underwriting work.[1]

[1] Information kindly supplied by Dr. P. J. Thomas, University Professor of Economics, Madras.

CHAPTER VI

THE BANKING INQUIRY, 1929–31

1. ORIGIN, CONSTITUTION AND SCOPE OF THE INQUIRY.

It was as early as the nineties of the nineteenth century, if not earlier, that the need of a banking inquiry found expression in the proceedings of the first Indian Industrial Conference. Just before the War, the Royal Commission on Indian Finance and Currency of 1914 had urged the appointment of a committee to study certain questions connected with banking, while in 1918 the Industrial Commission made the following significant recommendation:

'We ask, therefore, for the appointment at the earliest possible date of an expert committee to consider what additional banking facilities are necessary for the initial and for the current finance of industries; what form of Government assistance or control will be required to insure their extension on sound lines as widely as possible throughout the country; and whether they should be of provincial or of imperial scope, or whether both these forms might not be combined in a group of institutions working together.'

After the War, in 1919, a resolution urging the appointment of a banking committee was moved in the old Imperial Legislative Council by the Hon. Mr. (now Sir) B. N. Sarma. In 1924 the External Capital Committee emphasised the importance of a co-ordinated survey being undertaken at the earliest opportunity of the whole field of banking in India.[1] The recommendation of the External Capital Committee was supported by the Royal Commission on

[1] *Report of the External Capital Committee*, 1925, p. 15.

Indian Currency of 1925-26, and led to important consultations and correspondence between the Government of India on the one hand and the Provincial Governments and the Managing Governors of the Imperial Bank of India on the other.[1]

In 1927 the demand for a banking inquiry was reiterated by Mr. S. N. Haji in the Indian Legislative Assembly, and the resolution was endorsed by the fifth Indian Industrial and Commercial Congress and also by the All-India Economic Conference in their annual sessions. Government itself was agreeable to the institution of a banking inquiry, but preferred to wait until the Reserve Bank was established and some experience of its working had been gained, and until the Report of the Royal Commission on Indian Agriculture, expected to deal with the problems of rural banking, was received.

In 1928 the Report of the Royal Commission on Indian Agriculture was published, while the Reserve Bank Bill had failed. In the meantime the need of a banking inquiry was again urged by resolutions passed by the Associated Chambers of Commerce of India and Ceylon and the Federation of Indian Chambers of Commerce and Industry in December 1927 and 1928 respectively

Constitution. After consultation with commercial bodies, the Central Legislature and Provincial Governments, the Government of India decided to hold, in 1929, a comprehensive Banking Inquiry in three stages. In the first stage, a number of Provincial Committees with persons possessing intimate knowledge of local conditions were appointed to deal with the following subjects, viz. agricultural credit (including co-operative credit), credit facilities for small industries, mortgage banks, the financing of internal trade, and the stimulation of habits of investment and attraction of banking deposits. In the second stage, an All-India

[1] Full correspondence is published in the *Indian Legislative Assembly Debates, Official Report,* 31 January, 1927, vol. i., pp. 223-276.

Committee co-ordinated the material collected by all the Provincial Committees and completed the picture by itself making investigations into certain fields of banking which had been excluded from the purview of the Provincial Committees, such as regulation of banking, banking education, and credit facilities for India's main industries such as cotton, jute and coal. On the completion of the survey of the whole field of banking by the Central Committee, it was assisted in coming to its conclusions by a small body of foreign experts, selected by Government and having experience of rural credit and industrial banking. This was the third and the last stage of the inquiry.[1]

Thus the recent Banking Inquiry has been both in its constitution and scope the first of its kind ever set up in India. It was Sir Basil P. Blackett, one of the greatest Finance Members that India has had, who first conceived of it, but the credit of its successful inauguration goes to Sir George Schuster. Besides the Indian Central Banking Inquiry Committee there were ten Provincial Committees set up in the various provinces,[2] and nineteen of the Indian States[3] formed committees simultaneously for their respective territories. This is the first time in the field of finance that a Central Committee has been assisted by Provincial Committees in all provinces, and that committees in British India have had their counterparts in a large proportion, if not the whole, of the Indian States. Towards the end of their labours, the Central Committee had the benefit of consultation and collaboration with six foreign experts[4] chosen from Great Britain and other countries.

[1] *Report of the Indian Central Banking Inquiry Committee*, 1931, p. 3.

[2] Assam, Bengal, Behar and Orissa, Bombay, Burma, Central Provinces, Madras, Punjab, United Provinces and Central Areas.

[3] Akalkote, Aundh, Baroda, Bhopal, Bikaner, Dhar, Dholpur, Gwalior, Hyderabad, Jodhpur, Kolhapur, Orcha, Patiala, Phaltan, Porbandar, Pudukottah, Ratlam, Savanur and Travancore. Of these Jodhpur, Pudukottah and Dholpur Durbars did not prepare any reports of their inquiry.

[4] They were : (1) Mr. G. C. Cassels, Manager of the Bank of Montreal, London; (2) Mr. B. Currie, Partner in Glyn, Mills and Company; (3) Dr.

The Central Committee consisted of Sir Bhupendra Nath Mitra, K.C.S.I., K.C.I.E., C.B.E., Chairman; Sir Purshotamdas Thakurdas, Kt., C.I.E., M.B.E., M.L.A., Vice-Chairman; and nineteen other members, of whom fifteen were Indians. The members included two nominees each of the Indian Chambers of Commerce and Industry and of the Associated Chambers of Commerce, two Indian economists, two representatives each of the co-operative movement and of indigenous bankers, one representative each of the joint-stock banks, exchange banks, and the Imperial Bank of India, and six representatives of the general interests of the public requiring credit facilities.

Scope of the Inquiry. As already observed, the Central and Provincial Committees between them covered the whole field of credit in India. The terms of reference to the Indian Central Committee were:

'(*a*) The Development of Banking with a view to the expansion of indigenous, co-operative and joint-stock banking with special reference to the needs of agriculture, commerce and industry.

(*b*) The Regulation of Banking with a view to protecting the interests of the public; and

(*c*) Banking Education with a view to the provision of Indian personnel in adequate numbers and with the necessary qualifications to meet the increasing needs of the country for a sound and well-managed national system of banking.'

The Indian Central Committee issued its report in September 1931 in two parts—a Majority Report of 915 pages including the experts' report, and a Minority Report of

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A. Friederich, General Secretary of the Union Co-operative Society, Darmstadt; (4) Dr. O. Jeidels, a Managing Partner of the Berliner Handels-Gesellschaft, Berlin, Member of the Board of the German National Railway Company and Director of various other companies in Germany; (5) Mr. A. P. McDougall, C.B.E., Chairman and Managing Director of Midland Marts, Ltd., and Chairman of the Midland Wool Groupes, Ltd., formerly President, Co-operative Farms Trading Society in Scotland; (6) Dr. L. J. A. Trip, former Treasurer General at Department of Finance, the Hague, and former President to Bank of Java.

484 pages signed by a single member, Mr. Manu Subedar. Some idea of the gigantic character of the material collected may be obtained from the fact that the ten volumes of provincial reports cover about 3,500 pages, while the entire evidence—both provincial and central—runs to well over 17,000 pages in close and often small print.

2. NATURE OF THE PROBLEMS.

General Observations. Considering the terms of reference, the problems which the Banking Inquiry Committee has tackled are of a very wide character. They embrace, in one way or another, all the economic institutions and all the economic operations in the country. The importance of such an investigation can hardly be exaggerated. According to Sir Purshotamdas Thakurdas, 'the problems under inquiry affect vitally not only the prosperity of the masses but even their very existence under the present conditions.'[1]

The problem of rural credit is by far the most important of all economic problems in India. But the problem is not so simple as it may look at first sight. Thanks to the work of the Royal Commission on Agriculture in India, it is now clearly recognised that no machinery of rural credit, however perfect, will yield satisfactory results unless, at the same time, it is accompanied by all-round efforts to make agriculture a paying industry. In this respect the findings of the Agricultural Tribunal of Investigation in England are of considerable interest and instruction for India. It would be perhaps as well to enumerate here briefly some of the important factors which the Agricultural Tribunal mention as of sufficient importance for the well-being of agriculture in any country. They are: (1) The removal of the existing impediments to efficient production, *e.g.* fragmentation and subdivision of holdings in India;

[1] Foreword to *Indian Finance*, Banking Inquiry Number, 1930, p. 2.

(2) the fiscal organisation of the country and, in particular, assistance to agriculture by tariffs and subsidies; (3) the lowering of the burdens of taxation; (4) the economic organisation of the industry, and in particular the development among farmers of methods of purchase and sale and of co-operative insurance; (5) the institution of schemes for the improvement of land, livestock and crops, the elimination and control of pests of plants and animals, the provision of power and other assistance to industries subsidiary to agriculture, and the development of afforestation; (6) the organisation of the transport system of the country with due regard to the interests of agriculture; and (7) the development of State or voluntary organisation to provide the necessary central and local machinery for carrying out measures of agricultural policy and for influencing that policy.[1]

Rural Indebtedness. The improvement of agriculture is closely bound up with the problem of rural indebtedness. Accurate estimates of rural indebtedness are not available, but on the authority of the Indian Central Banking Committee, R. 900 crores may be taken as a very rough estimate of the total rural indebtedness of India,[2] and the general consensus of opinion is that the volume of indebtedness has been increasing. The causes responsible for this indebtedness may be said to be, in the main, past indebtedness, high rates of interest, the small size of holdings, recurring losses of cattle from drought and disease, insecurity of crops, and to a certain extent extravagant expenditure on social ceremonies.

The evils to which rural indebtedness gives rise are many, but some of them are often exaggerated. For instance,

[1] *Report of the Indian Central Banking Inquiry Committee*, 1931, pp. 49-52.

[2] *Indian Banking Committee Report*, 1931, p. 55. The shares of the various provinces arranged in order of magnitude are, Behar and Orissa 155, Madras 150, Punjab 135, United Provinces 124, Bengal 100, Bombay 81, Burma 50-60, Central Provinces 36, Assam 22 and Central Areas 18 crores of rupees.

it is said that rural indebtedness causes the transfer of land from the agricultural class to the non-agricultural moneylender with consequential loss of agricultural efficiency. This is reported to be true of Behar and Orissa, Bombay and particularly of Bengal, but not of the United Provinces, Madras, the Punjab and the Central Provinces.[1] Again, the allegation is generally made that the cultivator is obliged, by reason of his indebtedness, to sell his produce to his creditor at an unfavourable price. According to the Banking Committee, the complaint is more applicable to Madras, Bengal and Assam than to other provinces. Instances of economic servitude arising from the moneylender's grip over the cultivator are mentioned by the Royal Agricultural Commission in their report (paragraph 363). Fortunately they are now reported to be rare.[2] But the existing unsatisfactory system of agricultural finance in which no distinction between short and long period loans is made may be attributed to the cultivator's chronic borrowing.[3]

Moneylenders. Turning to the existing credit agencies the moneylenders present a twofold problem. On the one hand their interest charges are high and in the case of some moneylenders their practices are questionable. On the other hand their decline has started. This is unfortunate, inasmuch as they are still an indispensable feature of Indian rural economy.[4] They are a repository of local knowledge and experience and their business relations often go back for centuries. Such a class must not be allowed to die out; it should be, where necessary, reformed and rejuvenated.

Indigenous Bankers. The preceding words apply with even greater force to the indigenous bankers, whose charges for the services they render generally 'do not compare unfavourably with those of joint-stock banks and whose beneficent sphere of influence is wider than theirs.'[5] But

[1] *Indian Banking Committee Report*, 1931, p. 59.
[2] *Ibid.*, p. 60.
[3] *Ibid.*
[4] *Ibid.*, p. 83.
[5] *Ibid.*, p. 106.

as explained above (p. 64), owing to a variety of reasons, they have fallen on evil days. To sum up in a sentence, the problem is how best they can be reorganised so as to be linked up with the general banking system.

Co-operation. The problem of co-operative finance is so large that space will permit but a bare catalogue of the main defects which require to be remedied. They are: (1) Highly excessive overdues, (2) defective audit, (3) inefficient control, (4) lack of understanding of the principles and of the knowledge of rural credit, (5) want or inadequacy of suitably trained staff and workers, (6) reluctance to take action against defaulters and to liquidate societies which are beyond remedy, (7) inelasticity, dilatoriness and inadequacy of co-operative finance, (8) dearness of co-operative finance, (9) restriction of the movement largely to credit and the neglect of other important spheres such as marketing to the indirect and ultimate injury of co-operative finance, and (10) insufficient connexion with the commercial banking system of the country. Besides these there are some defects peculiar to particular provinces[1] and which are enumerated below:

Assam.

(1) Frequency of *benami*[2] loans and defalcations of societies.
(2) Inadequacy of fluid resources.
(3) Practice of allowing credit instead of strictly cash sales in co-operative stores.
(4) Unwise extension of loans.

[1] *Indian Banking Committee Report*, 1931, pp. 139-40. A slight modification in the analysis is attempted in the interest of space and clearness, but no real departure from the original has been made.

[2] *Benami* loans appear to have been quite common even in the nineteenth century. They are described in the *Capital* of the 26th July, 1892, as follows: 'A, being, we will suppose, in difficulties, and wishing to defraud his creditors, makes an arrangement with B, under which he gives him a mortgage over his entire stock-in-trade, B either giving A in return a nominal sum for the whole property or making a fictitious entry in his books that he has given so many rupees to A, in consideration of which he has been granted the mortgage. When the time comes for A to inform his creditors that he is insolvent, the creditors either find B in possession, or that the bulk of the stock has been removed to B's premises. All appears

Bengal.

(1) Tendency to make central banks too small.

Behar and Orissa.

(1) Preponderance of middle-class urban element in the direction of policy.

(2) Mixing up of short and long term finance in the central banks.

Bombay.

(1) Lack of careful selection of members.

(2) Lack of clear distinction between short, intermediate and long term loans.

Central Areas.

(1) Dishonest members and excessive loans.

(2) Lavish borrowing by Committee members.

(3) Inadequacy of co-operative staff and absence of honorary workers.

United Provinces.

(1) Inaccuracy of accounts.

(2) Inclusion of zamindars and moneylenders in the societies, disturbing the feeling of equality of status.

(3) Absence of a provincial bank.

Attention may now be turned to the problem of the long term credit as required by the Indian agriculturist. It is admitted that the solution lies largely in the establishment of more Land Mortgage Banks, but the question arises as to what type suits India best. The main questions affecting the working of the co-operative Land Mortgage Banks in India have been summarised by the Banking Committee as follows:

(1) What should be the economic purposes for which long term land mortgage credit might beneficially be supplied to agriculturists ?

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to be in order, for there is the mortgage deed, to the correctness of which all concerned in the swindle are prepared to swear. The creditors, finding nothing to be got by legal proceedings, but additional expenditure, do not prosecute, and in process of time the two swindlers divide the spoil in such manner as they have arranged. It sometimes happens, however, that the thieves fall out and B is unwilling to disgorge to A the share of the plunder to which the latter considers himself entitled.'

(2) What should be the maximum period for repayment and the mode of repayment ?

(3) Whence should mortgage banks derive their working capital? Should share capital be insisted on, and if so, what proportion should it bear to the borrowings? Where the issue of land mortgage debentures for raising the bulk of the working capital is favoured, should the issue be by the primary land mortgage banks or by a central agency ? If it is to be a central agency, should it be the existing Provincial Co-operative Bank or a separate central land mortgage bank, which should finance only the primary land mortgage banks ?

(4) Should land mortgage banks be permitted to receive deposits like co-operative central banks or joint-stock banks, and if so, for what purpose and under what safeguards ?

(5) What should be the relation between the land mortgage banks and the ordinary credit society where they co-exist ?

(6) Should the Government give any financial assistance to these banks, and if so, what form should it take ? Direct loans, exemption from certain taxes and fees guaranteeing principal or interest of debentures and making them trustee securities, and purchase of a portion of debentures are suggested.

(7) Should these banks be invested by special legislation with summary powers of recovery such as the right to sell or foreclose without the intervention of the courts ?

State Loans. The various drawbacks in the existing system of State loans have been already stated in Chapter III. The problem in regard to these loans may be said to be threefold. First, how are the administrative defects to be remedied ? Secondly, under what conditions can State loans be usefully granted ? Thirdly, what is the best agency for their distribution ?

Joint-Stock Banks. The problem of joint-stock banks has been well analysed by the foreign experts who assisted the Indian banking inquiry. Formed on the English model the Indian banks 'are not doing any industrial financing business nor any stock exchange business which is left in England to the private banker. . . . As there is no general

agency in this country devoting its banking activities to the business done by the London private banker, it is no doubt worth the while to examine the question whether these commercial banks ought not to accept the German system of more universal banking.'[1]

Taking the Indian joint-stock banks as they are it is agreed that they are not well developed. 'Very little or no use at all is made of bankers' acceptances; this may partly be due to the pattern of the English banks which formerly—but not any longer—left the acceptance business to special firms or institutions, relying themselves for their working capital mainly on the vast resources of deposits; the principal reason lies, however, apparently in the limited money market in India.'[2] Lastly, there is the problem of suitable banking legislation with a view to protecting the public against abuse on the part of dishonest or incompetent bank management.[3]

Exchange Banks. The problem of the exchange banks is one on which there is sharp conflict of opinion not only between the foreign experts and the Banking Committee,[4] but between the members of the Committee itself.[5] According to the foreign experts, 'the benefit which the trade of the country derives from the existence of the exchange banks largely exceeds the disadvantages. The country has the resources of some of the strongest institutions of the world at its disposal for a form of international finance which requires strong capital and connections.'[6] On the other hand, six members of the Banking Committee in a minute of dissent state (1) 'that all is not well with the foreign trade of India, particularly with reference to the benefit from it

[1] *Experts' Memorandum I., Indian Banking Committee Report,* 1931, p. 624.
[2] *Ibid.*
[3] *Ibid.*, p. 628.
[4] *Experts' Report, Indian Banking Committee Report Volume*, pp. 645 *et seq.*
[5] *Minutes of Dissent by Six Members of the Committee, Indian Banking Report, op. cit.*, pp. 582 *et seq.*
[6] *Banking Report, op. cit.*, p. 646.

to the nationals; and (2) that the absence of adequate banking facilities for this purpose as supplied by the Exchange Banks has militated against Indians acquiring their due share in the trade, and the loss to the country as a whole by this handicap to the commercial community is enormous.'[1] The position of the Banking Committee lies midway between these two. From the purely trading point of view they regard the existing facilities as sufficient,[2] but after fully weighing all considerations they have definitely come to the conclusion that 'it is not desirable that India should rely for all time on the facilities afforded by non-Indian institutions for the financing of her foreign trade.'[3]

Imperial Bank of India. The problem of the Imperial Bank of India is that it suffers from restrictions and governmental control which were imposed on it on account of its 'hybrid nature.' A revision of the Imperial Bank of India Act may now take place any time after Government has given the bank one year's notice, and the question of the nature of changes to be incorporated in the new Act is therefore of great importance

Post Offices. The only important problem with regard to the post offices is that the facilities they offer may well be improved and extended. But opinion seems divided on the question of the encouragement of postal cash certificates, those against this procedure urging that the certificates compete with joint-stock banks in the attraction of funds.

Stock Exchange. Barring the stock exchanges of Bombay and Calcutta there is no regular investment market in the country. 'Investment banking institutions with an organisation for investigation into the merits of industrial issues, for underwriting such issues and for marketing the securities are as yet unknown. Such institutions can, if founded, assist materially in the flotation of sound

[1] *Indian Banking Committee Report*, 1931, p. 584. [2] *Ibid.*, para. 477.
[3] *Indian Central Banking Inquiry Committee Report*, 1931, para. 482.

concerns, give a ready marketability to their securities and inspire public opinion in such forms of investment.'[1] Unless, however, there is sufficient business, no exchanges can be established.

The Money Market. Taking the Indian money market as a whole it is almost a truism to say that it does not bear comparison with the highly developed money markets of the west. In fact, as the foreign experts remark, there are in the country two money markets—the Central money market and the *Bazar* money market, with their own agencies and rates of interest and without sufficient co-ordination. The former is ' to a large extent dominated by Government, which controls the currency and exercises a decisive influence on the bank rate.'[2] Another serious evil is the partition of the control of currency and credit between two agencies—viz., the Government and the Imperial Bank of India with its consequent lack of elasticity and large variations in rates of interest.

3. SUGGESTED SOLUTIONS.

Provincial Board of Economic Inquiry. Having briefly reviewed the nature of the problems, attention must now be turned to the solutions suggested by the Banking Inquiry Committee. It was pointed out in the preceding section that besides the provision of credit a progressive and constructive agricultural policy is required to develop a profitable agricultural industry. With a view to providing Government with necessary data for pursuing such a policy, the first recommendation of the Indian Central Banking Committee is that a Provincial Board of Economic Inquiry should be established in each province (73).[3]

Settlement of Rural Indebtedness. Coming to the problem

[1] *Indian Central Banking Inquiry Committee Report*, 1931, para. 655.
[2] *Indian Banking Committee Report*, 1931, p. 648.
[3] The figures in brackets, throughout this chapter, refer to the relevant paragraphs of the *Indian Central Banking Inquiry Committee Report*, 1931.

of rural indebtedness, the Royal Commission of Agriculture in India took a very serious view of the matter and remarked that 'it must be clearly recognised that the worst policy towards debt is to ignore it and do nothing.'[1] The Banking Committee is of opinion that attempts to relieve prior indebtedness may be usefully made in localities where co-operative land mortgage banks exist and that more of such banks should be established in places where they are likely to prove successful. But to satisfy the credit requirements of the large class of agriculturists who are outside the co-operative movement and to provide substantial loans to big landlords, Provincial Land Mortgage Corporations on a joint-stock basis or on the model of the English Land Mortgage Corporation are necessary (87).

In addition, a scheme of debt conciliation on a voluntary basis mainly with the aid of co-operative agency and special officers is recommended (91). Further, in view of the fact that the present insolvency law is too complex for rural borrowers who are prepared to give up all their assets in discharge of an inherited debt, the introduction of a simple Rural Insolvency Act is suggested (93). Lastly, the possibility and desirability of undertaking other legislation to secure the settlement of debts on a compulsory basis should be explored by Government (94).

Moneylenders. With a view to controlling and reforming the activities of the moneylender, the Punjab Regulation of Accounts Act, 1930, is commended to the consideration of other provincial governments for consideration. At the same time the retention of the Usurious Loans Act and the inclusion of a special report on its working in the annual reports on the administration of civil justice is suggested, inasmuch as the Act is capable of being worked to the advantage of debtors in many ways. Further, provisions similar to the following in the English Moneylenders Act are recommended for intro-

[1] *Report of the Royal Commission on Agriculture in India*, 1928.

duction in India which should apply to moneylenders as defined in the Punjab Regulation of Accounts Act, 1930.[1]

(*a*) No amount shall be charged by the moneylender for the expenses incidental to or relating to the negotiations for or the granting of a loan. If it is found necessary to permit the moneylender in India to recover certain classes of expenditure from the borrower, these should be clearly specified in the legislative enactment.

(*b*) The increase of interest for default in payment should be illegal.

(*c*) No contract for the repayment of money lent by a moneylender shall be enforceable if there is no note or memorandum in writing of the contract made and signed by the borrower or if it is proved that such note or memorandum was not signed before the money was lent (122).

Various other suggestions are made for improving the moneylenders' position. For instance, (*a*) they could join co-operative societies, provided they do not lend to the members of the same societies privately; (*b*) the experimental formation of the co-operative societies of moneylenders which should lend to the primary societies and not to individuals; (*c*) entrusting moneylenders with the agency functions of joint-stock banks; (*d*) contact of joint-stock banks with the registered moneylenders on what are known as 'kommandit' principles.[2] Finally, it is suggested that

[1] The definition excludes from the operation of the Act financial transactions between merchants and also loans to traders.

[2] The *Kommanditgesellschaft auf Aktien* is a German form of a joint-stock company, where at least one person, who also manages the company, but does not necessarily hold shares, is personally liable to the creditors of the company. This or these persons are, so to say, the partners of the community of stockholders; their position towards the stockholders is therefore more independent than that of a manager or managing director; his income consists in a share of the profits. The form had been almost abandoned in Germany, but has come in use again more recently with banks, because it naturally increases the confidence of the depositors. One could imagine that this legal form has some attraction with smaller joint-stock banks in this country, because it removes the depositors' apprehension that the directors may, as has unfortunately been the case occasionally, manage the bank unduly in their own interest, and it may appeal to the indigenous bankers to form a joint-stock company in which they will

such moneylenders as may satisfy the necessary conditions mentioned below (p. 156) may even become members of the proposed Reserve Bank (143).

On the other hand, as the Pathan moneylenders are notorious for harassing their clients, it is recommended that failing ordinary law, Government should take special action and deport those moneylenders who are a menace to society. Further, the courts should be empowered to dismiss cases instituted by moneylenders for recovery of sums on promissory notes, stipulating that the loan shall be repaid in any of the several districts mentioned therein (122).

Indigenous Bankers. As for the indigenous bankers, it is suggested that they should be brought into direct relation with the Reserve Bank as soon as it is formed, so that they may be linked up with the general money market and their status may be improved and raised therein. It is recognised, however, that before this can be done, the bankers must submit to certain obligations—viz., (*a*) confine themselves to banking business only, (*b*) satisfy a standard regarding their capital and reserve such as may be framed by the Reserve Bank, (*c*) maintain proper books of accounts subject to regular audit and inspection by the Reserve Bank, (*d*) keep compulsory deposits with the Bank (but for the first five years of the Bank's working, bankers whose deposits do not exceed five times their capital may be exempted from this condition), and (*e*) charge the public such rates as are not 'unduly high.'

As against the foregoing obligations, it is contemplated that the indigenous bankers will enjoy the following privileges —viz., (*a*) be eligible to be placed on the approved list of the Reserve Bank in the same manner as the joint-stock banks and have their bills discounted by the Reserve Bank (139),

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occupy an independent position justified by their personal ability. Every company law ought to offer various models of joint-stock companies for selection, and this may be one among others. (*Indian Banking Committee Report*, p. 629.)

(*b*) receive facilities for remittance of funds through the Imperial Bank or the Reserve Bank on the same terms as the joint-stock banks (142), (*c*) get the benefit of the Bankers' Books Evidence Act (142).[1]

In the case of indigenous bankers whose principal business is not banking, or who do not adopt banking as their principal business as soon as the Reserve Bank is established, the adoption of a more liberal policy in granting facilities by the Imperial Bank and other joint-stock banks is commended for their sympathetic consideration (144).

Co-operation. With regard to the co-operative movement, the Banking Committee has made a number of very useful suggestions for improving the organisation and methods of business, training of staff, reduction of interest rates, provision of State aid and the linking up of co-operative agencies with joint-stock banking and the Reserve Bank. The suggestions in regard to organisation and business are as follows:

(*a*) Ordinary societies should confine themselves to short term and intermediate credit, long term credit being provided by land mortgage banks discussed below (165).

(*b*) Central banks may lend to societies at concessional rates amounts not exceeding the reserve fund in deposit with them (155). They should start a bad debt fund, and carry a reasonable amount of profits to that fund, in addition to the statutory allocation to Reserve Funds (157).

(*c*) Provincial banks should continue to be bodies incorporated under the Co-operative Societies Act. The executive head of a provincial bank should be a thoroughly trained banker with competent knowledge of the principles and practice of co-operative credit. Provincial banks should not deal directly with primary societies, but should consolidate and strengthen their position as financing agencies and balancing centres for central banks (159).

(*d*) The present legal provision in Section 19 of the Co-operative

[1] Cf. my almost identical suggestions to the United Provinces Banking Inquiry Committee, 1929-30, *Evidence*, vol. ii., pp. 129-30.

Societies Act, 1912, gives the society a prior claim, subject to that of Government, over other creditors of the members in respect of overdues of money available for agricultural requisites, but there is no specific charge. It is recommended that the prior claim should be converted into a first charge.[1]

(*e*) With a view to popularising the movement and promoting a sense of responsibility among members existing official control should be slackened (168). But there should be strict scrutiny of the economic purpose of the loan and the borrower's repaying capacity before loans are given, and no leniency should be shown in the matter of extension of loans or in dealing with defaulting members (170).

(*f*) Further, a special scheme of audit, the introduction of the normal credit system, granting credits on current account, and introduction of cheque transactions, wherever possible, are recommended (171, 173 and 174).

The Committee laid due emphasis on special steps being taken for the efficient and adequate training of both the official and non-official co-operative staff and for inculcating on the co-operators the true principles of rural credit. It also said that endeavours should be made to secure trained secretaries for the societies. If the *panchayat* of a society were to advance loans beyond its legal powers, members should be held personally liable as guarantors of the loans, and the rules, if necessary, should be amended accordingly. Further, central banks should operate over fairly large areas with a good number of societies affiliated to them, and they should be run on strict businesslike and co-operative lines (179).

Interest rates can be brought down if, among other things, the working expenses of the central banks are reduced and savings are directly tapped by the rural societies. If a rural society charges its members more than 12 per cent. per annum, a careful inquiry should be instituted by the

[1] In Bombay the prior claim under the All India Act is already converted into a first charge by the local Act.

provincial government and the provincial bank concerned and steps should be taken to reduce the rate of interest (176).

The following suggestions are made regarding provision for State aid and the connexion with commercial banking with a view to ensuring the supply of cheap and adequate credit to Indian agriculture.

(*a*) The Imperial Bank of India should offer cash credit and overdraft facilities on a liberal scale against approved co-operative paper (181).

(*b*) Free remittance of funds for co-operative purposes being of the utmost importance to the co-operative movement, no attempts should be made to curtail these privileges under the rules of the Government of India. As regards remittance facilities for other than co-operative purposes, co-operative banks should be entitled to the same terms as joint-stock banks (182).

(*c*) On the whole, co-operative banks do not and need not compete with joint-stock banks, except in respect of loans against produce. Such loans are of special economic benefit to cultivators and should be encouraged subject to the by-laws of the societies and to suitable storage accommodation.

(*d*) If State aid is required in exceptional circumstances the State should give temporary and sufficient aid to enable the tiding over of the crisis. Similarly the State should provide such funds as it can if in its opinion they are required by the societies for the development of agriculture. Contributions from Government funds to the expenses of the movement in backward tracts and among backward classes should be increased (189).

(*e*) Certain provisions should be made in the Reserve Bank Act for the linking up of the co-operative banks with the central bank of the country.

For extending the movement, special efforts should be made to promote special types of societies, *e.g.* societies for joint cultivation, for providing manure and seeds, processing societies such as rice-hulling, cotton-ginning, etc. The Co-operative Societies Act should be amended so as to permit

registration of societies of an All-India character, or societies operating in more than one province (161).

Among miscellaneous suggestions the Committee recommends that the profits of the co-operative societies should be exempt from both income-tax and super-tax (195). In regard to earnings from investments in public securities on land mortgage debentures, however, the exemption from these taxes should apply to the extent that such investments are necessary for the purpose of the societies' fluid resources and for the investment of reserve funds, as prescribed by the rules (196).

Land Mortgage Banks. Although land mortgage banks are not yet developed in India their constitution has been the subject of thorough examination and almost unanimous agreement by the conference of Registrars of co-operative societies in India in 1926 and in 1928, by the Royal Commission on Agriculture in India in 1928 and by the Banking Inquiry Committee quite recently. Recalling to mind the questions affecting the land mortgage banks set out in full above (pp. 163-164), we may now turn to the answers suggested.

As to the objects of these banks, the Banking Committee fully endorses the following recommendations of the ninth conference of Registrars[1] (1926) embodied in the following resolution, but would place the object 2 (*c*) along with 2 (*a*) first.

(1) Mortgage banks based on co-operative principles are desirable in many parts of India. No transaction should be undertaken which is not economically profitable to the borrower.

(2) *Objects.* The principal objects should be:

(*a*) The redemption of the land and houses of the agriculturists.

[1] *Proceedings of the Ninth Conference of Registrars of Co-operative Societies in India*, 1926, pp. 83-91.

(*b*) The improvement of land and of methods of cultivation and the building of houses of agriculturists.
(*c*) The liquidation of old debts; and
(*d*) The purchase of land in special cases to be prescribed in the by-laws. (Para. 218.)

The amount and period of the loan must really depend upon the purpose of the loan and the borrower's repaying capacity, but for the present the maximum amount of the individual loans should be R. 5,000 and the maximum period 20 years (219). Repayment should be effected generally by a system of equated instalments, graduated instalments being permitted if they are necessitated by local conditions (220).

The working capital of the co-operative land mortgage bank should be derived from share capital and debentures. The former should be raised by deducting 5 per cent. of the amount borrowed by members at the time the loan is advanced. Where necessary, provincial governments should make advances free of interest on condition that repayments are made out of the realisations from debenture issues. It with the development of the banks larger capital is required, provincial governments should consider the advisability of providing it (221).

The Committee is of opinion that the proportion of the debenture to the share capital need not, as recommended by the experts,[1] be limited to 5:1, but should be left to the discretion of the co-operators in each province. In no case, however, should the value of debentures outstanding exceed the outstanding amount under mortgages given by the borrowers and over which the debenture holder has a floating charge. For the success of the debenture issue Government should guarantee the interest on debentures for the whole period of their currency and, subject to adequate redemption arrangements, include the debentures among trustee securities (221).

[1] *Experts' Memorandum, Indian Banking Committee Report*, p. 700.

The debentures should be issued by a central institution called the Provincial Land Mortgage Corporation, but the actual sale should be made by the primary land mortgage banks as well. The latter, which may be called district mortgage banks, should operate over fairly large areas and should be entitled to obtain the necessary finance from the former. Until the formation of the Provincial Land Mortgage Corporation, the primary land mortgage banks may be financed by the Provincial Co-operative Bank with long-term capital specially raised for the purpose (222).

The Committee is not in favour of permitting land mortgage banks to receive deposits like co-operative central banks for at least some time to come, for short-term deposits are not suitable for the purpose of the liquidation of old debts with which these banks will be primarily engaged in the beginning of their career (224). As for the relationship between the mortgage banks and the co-operative credit societies, it is recommended that they should work entirely apart and the two should be quite separate. But if a member of a credit society applies to a land mortgage bank, the latter should ordinarily consult the former without losing its responsibility for granting the loan (223).

Lastly, it is suggested that the land mortgage bank should be given the power of foreclosure and sale without recourse to the civil courts subject to certain safeguards, and that the insolvency law should be amended so as to give greater protection against avoidance of mortgage by the unsecured creditors of the insolvent (225-226). In this connexion the Committee examined the operation of the Land Alienation Act and of several Tenancy Acts which restrict in various ways the free alienability of land. From a purely banking point of view it seems undesirable that there should be any such impediments to the free transfer of land, but as other considerations are involved, the Committee would prefer the provincial governments and legislatures to take all factors

into account in determining their policy. But it recommends an alteration in the Land Alienation Acts so as to give the land mortgage banks the right to take possession of and to sell land through foreclosure on default of the payment of the instalment of the loan (228).

State Loans. In regard to State loans there are three questions, viz. administrative defects, conditions under which loans may usefully be given and the proper agency for their distribution. The last matter has been dealt with in Chapter III. (p. 87), while the remedies suggested with regard to the administrative defects are summarised below.

(1) *Delay in the Disposal of Loan Applications and Levy of Illegal Gratifications.* Provincial Governments should take steps to minimise delays in the disposal of applications for *takavi* loans and to lessen the opportunities for illegal gratification by employment of officers of some standing (240).

(2) *Insufficiency of Loans.* Where funds are insufficient, advances might be restricted to a smaller number of recipients whose need is the greatest, and their requirements might be satisfied in full. Loans should be given on a more liberal scale than at present (240).

(3) *Strictness in Realisations.* Any laxity in realisations of *takavi* loans is not desirable, but liberal suspensions and remissions, when necessary, should be granted. Dates of repayment should be fixed with due regard to the date of harvest, and repayment of cattle loans should be allowed in two *kists* (instalments) in place of one. Similar loans advanced in times of distress should be recovered in instalments (240).

(4) *Unfairness in Realisation of Joint Bonds.* When joint bonds are taken the amount due from each individual borrower should be entered separately in the bonds, every attempt should be made to realise from each individual the amount so shown, and joint liability should be enforced only as a last resort and even then apportioned as fairly as possible (240).

As for the condition and objects of *takavi* loans, Government may well be guided by (1) the policy followed in

Bijapur in the Bombay Presidency which has a definite scheme of agricultural improvement and famine protection,[1] and (2) the important observations made by the Indian Famine Commission of 1901, *e.g.*: 'Advances under the Agriculturists' Loans Act are most profitably given for the purchase of seed grain for the *rabi* harvest at the very commencement of the famine and again for the purchase of plough cattle and seed in the months of May and June in anticipation of the *kharif* sowing . . .' (para. 250 of the Famine Commission Report). It is further suggested that the operation of the loans should be restricted to relief of distress (242), but State loans should not replace the famine relief (243).

Joint-Stock Banks. The Banking Committee makes two recommendations with regard to the business of joint-stock banks, first, that they should extend the system of advances against precious metals (252) and on the personal credit of borrowers (555), and, secondly, that with the establishment of the Reserve Bank they should do all they can to offer cheap remittance facilities to the public.

With regard to their organisation, it is suggested that the banks should aim to combine the efficiency of the European system with the economy of the indigenous bankers (547). No obstacles should be put in the way of mergers among smaller joint-stock banks by stamp duties or taxation, and any existing obstacles in this direction should be removed (549). The banks should be encouraged to open new branches, where there is no joint-stock bank, by the Reserve Bank placing with every such branch a deposit of such sum and on such conditions as it considers necessary, for the first five years (530). The banks should also consider the opening of sub-offices or part-time branches in small centres contiguous to places where there are regular branches of

[1] The details of the scheme are given in para. 107 of the *Bombay Banking Committee Report*, 1929-30.

banks (546). No new branches should be opened without the approval of the Reserve Bank, which should grant licences freely to the already established branches (545).

The banks can render better service if they pool information in regard to customers and organise a suitable system of collecting reliable information. Further, their position can be strengthened if the impediments in the way of banks' accepting immovable property of a Hindu or Mahomedan family as a normal security are removed (562); if Section 58 (*f*) of the Transfer of Property Act[1] is extended to commercial towns where people are fairly advanced (563); and, lastly, if the Negotiable Instruments Act is amended so that a cheque originally drawn 'bearer' shall remain 'bearer' despite any endorsement. A 'bearer' cheque may, however, be altered to 'order' by the drawer or the holding endorser putting his name on its *face*. *Hundis* drawn in the form of cheques should be similarly treated (564).

Banking Legislation. As for banking legislation, any bank, Indian or non-Indian, wishing to do banking business in India should be required to take out a licence from the Reserve Bank, which should make no difficulty in granting licences, but shall see that all the legal requirements are fully satisfied (684). There should be a special Bank Act, and all banking firms incorporating under it should make adequate provisions in the Memorandum and Articles of Association regarding (*a*) prohibition of activities other than banking; (*b*) powers of directors regarding registration of transfers of shares (699); (*c*) the standing of a shareholding member to entitle him to participate in the proceedings of a banking company (700); (*d*) prohibition of a loan on the

[1] By it equitable mortgages are created by a simple deposit of documents, without any mortgage instrument or registration. The Section applies to Calcutta, Bombay, Karachi, Rangoon, Moulmein, Bassein and Akyab, and in any other town which the Governor-General in Council may, by notification in the *Gazette of India*, specify.

security of a bank's own stock (709); (*e*) limitation of loans to directors, managers, and members of the staff of the bank (710); (*f*) borrowing powers of directors on behalf of a bank (712); (*g*) qualifications, appointment, retirement and voting powers of directors and officers of banks (713); (*h*) holding of proxies by officers and employees of a bank, the admissibility of a general form of proxy and the maximum period of its duration and validity (714-715); (*i*) voting power of individual shareholders and validity of votes at the poll (716-717); (*j*) last date for posting the directors' report and balance-sheet to the shareholders (731).

The Act itself should provide for:

(i.) A majority of natural born or domiciled Indian directors and shareholders, and incorporation under the Indian law (689-690).

(ii.) Prohibition of the organisation of a bank on the managing agency system (693).

(iii.) A minimum paid-up capital of R. 50,000, the paid-up capital being never less than 50 per cent. of the subscribed and the subscribed never less than 50 per cent. of the authorised capital (695).

(iv.) A separate index of names of all members and a separate register of shares owned by non-nationals (697-698).

(v.) A decision of the directors within two months of the presentation of the transfer deeds to the bank whether transfers shall be registered or not (700).

(vi.) Filing of particulars of certain mortgages and charges with the Registrar of Joint-Stock Companies of the province (701).

(vii.) Registration of certain prior charges on immovable property acquired by a bank (702).

(viii.) Recording of the satisfaction of a mortgage before the Registrar (703).

(ix.) Allocation of at least 2½ per cent. of a bank's paid-up capital before distribution of dividend, to a reserve fund until the fund equals the paid-up capital (704).

(x.) Prohibition of advances and restrictions in payments beyond their remuneration to auditors (711 and 721).

(xi.) Prevention of a mortgage or charge on a bank's uncalled capital (712).

(xii.) Liability of officers and directors for omission of material facts in their reports or accounts (720).

(xiii.) A revised balance sheet (730), specimen indicated, and its display in lieu of Form G (732).

(xiv.) Treatment of bad and doubtful debts (727).

(xv.) Cost or market price, whichever is lower, as the basis of valuation of securities (729).

(xvi.) Holding the annual general meeting not later than three months after the close of a year (734).

(xvii.) Temporary moratorium on the Reserve Bank's recommendation in times of difficulties (735).

(xviii.) Appointment of a liquidator by the Reserve Bank or with its approval, in case of a bank's voluntary liquidation (739).

(xix.) Safeguarding of the creditors' interests on the lines of the English Companies Act, 1929, in case of compulsory liquidation (740).

(xx.) Appointment of committees of inspection in the event of a bank's compulsory or voluntary liquidation (741).

(xxi.) Giving the actual numbers of a bank's shares by their seller at the time of their sale (748).

The above Act should apply within five years of its passing to all banking companies other than banks registered under the Indian Co-operative Societies Act or under any special charter or enactments and banks registered under laws of other countries (682). In the case of a non-Indian bank taken into liquidation, there should be some arrangement under which the Indian creditors of the banks should have a prior claim on its assets in India and should also share in the general distribution of its assets outside India, if the assets in India are insufficient (743).

Regulation of loans by banks should be left to the discretion of the management and the control of their boards of directors (708).

Exchange Banks. Regarding the exchange banks the Banking Committee makes two important and several minor

recommendations. In the first place, all non-Indian banks must take out a licence from the Reserve Bank on certain specified conditions—*e.g.*, furnishing to the Reserve Bank statements *re* assets and liabilities of their business in India, periodical reports of their Indian and non-Indian business, etc. Licences should be freely granted to banks already established (451).

In the second place, the more important Indian joint-stock banks should open useful foreign connexions and the Imperial Bank of India should be induced to take an active share in financing India's foreign trade when the Reserve Bank is established and the Imperial Bank is shorn of the present restrictions on exchange business (483). Failing the Imperial Bank, the establishment of an Indian Exchange Bank is recommended (485-486). At the same time the suggestion for the promotion of joint banks (partnerships on equal terms between Indians and Europeans) is supported and may be usefully explored by Indian joint-stock and foreign banks (492).

Among other suggestions may be mentioned the desirability of (1) employing and training more Indians in higher posts, and (2) the exchange banks accepting import bills instead of purchasing them, in the same way as they accept house paper of a London export house. If, however, Indian importers find it convenient to have the exporters draw on them in rupee bills, the exchange banks should co-operate and encourage all efforts in this direction (430).

Imperial Bank of India. The main recommendation of the Committee is that the restrictions imposed by the present Act on the Imperial Bank's transacting foreign exchange business or other class of business, but which are not imposed on the operations of Indian joint-stock banks, should be withdrawn. The intention is that this should happen only after the proposed Reserve Bank is constituted and the Imperial Bank assumes the same position as other

joint-stock banks. But on the whole it seems desirable that the Imperial Bank should continue to have a charter of its own (528-529). Finally, special emphasis is laid on the Indianisation of the bank's staff (532).

Post Offices. The improvement of the existing deposit and investment facilities afforded by the post offices is suggested in the following ways:

(i.) The limit in respect of minors' accounts, which at present is R. 1000, should be raised (645).

(ii.) Persons having Post Office savings accounts should be allowed to operate on these accounts, and to make deposits by means of cheques (646).

(iii.) Joint accounts should be allowed in the name of two persons payable to either or survivor (646).

(iv.) Depositors of savings and holders of postal cash certificates should be allowed to appoint nominees to whom the payment of deposits should be made or the amount of certificates transferred in the event of the formers' death (646-647).

(v.) Wider publicity should be given to the facilities afforded for the purchase, sale and safe custody of Government securities, and these facilities should be extended to small investors generally and not confined to savings bank depositors (651-2).

Other suggestions for the development of savings and the investment habit include (*a*) issue of savings certificates payable in gold, as recommended by the last Commission on Indian Currency and Finance[1] and of a new type of gold certificate for women, as suggested in the Behar and Orissa Banking Committee[2] (649-650); (*b*) reduction of banks' charges in the purchase and sale of securities and other incidental services (653); (*c*) extension of facilities for payment of land revenue by cheque to taluka sub-treasuries and district treasuries and extended use of cheques in payments by Government and public bodies (665); (*d*) the formation of National Savings Associations in all provinces (667);

[1] *Report of the Commission*, 1926, paras. 67-68.
[2] *Report of the Committee*, 1929-30, para. 486.

and (*e*) the investment by all insurance companies, Indian or non-Indian, of a fixed proportion of their funds in approved Indian securities (660).

Stock Exchange. While it is true that in the absence of sufficient business no exchanges can be established, existing banks and their branches, including co-operative banks and other financial organisations, may render useful service by undertaking the work of buying and selling stocks and securities for their customers on a commission basis (655).

Reserve Bank. For the orderly development and compact organisation of the Indian money market, the Banking Committee has recommended the creation of a Central or Reserve Bank at the earliest possible date. The question of the constitution of such a bank is not discussed, but the Committee has based its recommendations on four clear assumptions—viz.: (1) that the Bank would be established by an Act of the Indian Legislature, (2) that its capital would be provided by the State, (3) that it would be under Indian control, and (4) that it would not be interfered with in its day-to-day administration by either the executive or the legislature (Indian or British).[1]

As regards the business of the Reserve Bank, it is suggested that the old Reserve Bank Bill[2] may be so modified as (*a*) to enable the Bank to make loans and advances on the security of movable goods, wares and merchandise as well as against the warehouse warrants or receipts representing such goods (607); (*b*) to permit the Bank to purchase, sell and rediscount rupee import bills (608); (*c*) to let the total face value of agricultural bills held by the Bank go up, at its discretion, to the amount of its share capital (609); (*d*) to extend the period of agricultural bills from six to nine months (611); (*e*) to empower the Bank to borrow money up to the amount of its share capital and reserve fund (611); (*f*) to provide

[1] *Indian Central Banking Inquiry Committee Report*, 1931, pp. 418-19.
[2] See above, p. 32.

necessary concessions[1] for indigenous bankers (613); and (*g*) to permit the Bank to act as agents for Indian States (611).

The establishment of the Reserve Bank would in itself stimulate the development of the bill market in the country inasmuch as it would dispel the present prejudice on the part of joint-stock banks against the discounting of bills (593). But other suggestions are made, as given below:

(*a*) When the Reserve Bank is established, it should use its discretion to charge a higher rate for demand loans against authorised securities and, at the outset, it may find it useful to have a larger margin between these rates than will be necessary after the bill market has developed.

(*b*) Establishment of warehouses.

(*c*) Abolition of stamp duty on bills within a period of five years. As an initial step the duty on all bills of less than one year's usance should be reduced to a uniform rate of 2 annas per R. 1,000.

(*d*) Standardisation of customs *re hundis* in particular regions, if not for the entire province.

(*e*) Expeditious procedure for disposal of suits based on negotiable instruments on the lines of Order XXXVII. of the Civil Procedure Code in places where *hundi* business is important.

(*f*) Joint efforts on the part of commercial bodies and Government in various directions to encourage the use of bills (593).

All-India Bankers' Association. With a view to arriving at a better understanding of their common problems and interests it is suggested that the joint-stock banks, the exchange banks, the Imperial Bank of India and the indigenous bankers should all form an All-India Bankers' Association. There should be two kinds of membership—full membership, open to banks and bankers enjoying rediscount facilities from the Reserve Bank, and associate membership, open to the rest of the banks and bankers (620). At the same time it is recommended that the exchange brokers should not have more than one association at each centre[2] (623).

[1] See above, p. 170.

[2] See above, p. 109.

Banking Statistics. Pending the establishment of the Reserve Bank, it is suggested for the consideration of Government that efforts should be made to obtain more complete statistics for the various classes of banking institutions and to publish them with as little delay as possible (627).

Banking Education. Finally, there is the question of banking education, on which the committee makes the following useful recommendations:

(*a*) Every university should provide for the training of students at recognised institutions by courses for commercial degrees (755).

(*b*) The Institute of Bankers might make arrangements for University lectures and courses of instruction at different centres in commercial subjects (761 and 769).

(*c*) Young Indians possessing high qualifications, after preliminary training in banks at home should be encouraged to go abroad to study advanced banking, especially international exchange and other subjects connected with currency and exchange (766).

(*d*) Where possible, systematic instruction in elementary accounting, discount, co-operative principles and elements of banking should be given in secondary schools (768).

(*e*) Sons of indigenous bankers should be encouraged to join joint-stock banks (771).

(*f*) Co-operation might be included as an optional subject in the curriculum of the Institute of Bankers (773).

(*g*) The closer study of marketing of agricultural produce should be introduced in co-operative training institutes (776).

(*h*) Co-operative educational institutions should be established in every province with an All-India Co-operative College for the higher study of co-operation and allied subjects and research work. The central and provincial colleges should be conducted by the co-operators themselves with the possible assistance of Government grants (779).

CHAPTER VII

THE FUTURE OUTLOOK

1. MONETARY REFORM.

THE foregoing analysis clearly brings out that the Indian money market is highly disorganised and ill-developed, if it can be called a money market at all. For a modern money market is hardly conceivable without central stock exchange organised to deal in bills of all kinds and a central bank. India has no central bank, and is yet far from having a bill market or central stock exchange. At the same time the lack of a proper banking system is accompanied, as might be expected, by the want of a satisfactory monetary mechanism. The two are interdependent, but the desirable reform for each may be examined separately.

Taking monetary reform first, the crux of the problem is to determine the best monetary standard for the country. In 1926 the question was answered by the Hilton Young Commission in favour of the gold bullion standard. But it fell short of the very merit they aimed at—*i.e.*, simplicity. Since then the situation has radically changed.

'Over the greater part of the globe the gold standard has ceased to function: the Argentine and Uruguay suspended gold payments in December 1929, and their exchanges were allowed to depreciate; Canada introduced temporary restrictions at the end of 1929, and in 1930 the exchanges of Brazil, Chile, Venezuela, Paraguay, Peru, Australia and New Zealand fell and remained below export gold point. In September 1931 the United Kingdom abandoned the gold standard. Before the end of October all the British

Dominions excepting South Africa, the rest of the British Empire, and the three Scandinavian countries, as well as Portugal, Egypt, Bolivia and Finland had departed from gold. Japan followed in December 1931, Greece in April 1932, Siam and Peru in May 1932.'[1] At the time of writing, only some half-dozen countries in the world are left with an effective gold standard.

Alternative Standards. Besides gold, it is possible for India to have any one of the following standards: (1) sterling, (2) silver, (3) bimetallic, or (4) a paper standard based on the index number of prices for a large number of commodities. Barring gold, however, of the four alternatives, the choice would probably lie between the first and the last—*i.e.*, the sterling or the paper standards respectively. Both silver and bimetallism have been advocated by writers in recent articles, but to a large portion of the public they appear to make no appeal, and it looks very doubtful that they will ever command any substantial support from Government.

Three Requisites. Whatever the standard, three requisites are essential for its smooth working. Firstly, there must be a proper apparatus; secondly, there must be the necessary knowledge to use that apparatus; and thirdly, there must be adequate will or goodwill as the driving force. Or to employ a homely analogy, there must be a good engine, an able engine-driver and sufficient steam. A monetary standard cannot succeed if its apparatus is defective. But even with the best apparatus it might fail, if the knowledge to use it were lacking or if it did not possess the confidence of those whom it serves. Judged by these threefold requisites—physical, intellectual and emotional—the sterling exchange standard breaks down on the third and the paper standard on the second. The sterling exchange standard, in spite of

[1] *Report of the Gold Delegation of the Financial Committee, League of Nations, Geneva,* 1932, para. 2.

its long use, does not seem to satisfy Indian opinion. As for the paper standard, its feasibility is at present doubtful even in countries much more advanced than India.

Retention of the Gold Standard. Professor Keynes and others have long recommended that the best monetary standard is one stabilised in terms of a large number of commodities directly rather than one stabilised first in terms of one commodity—*i.e.*, gold. Theoretically speaking, there is no doubt that the former standard is superior to, for it is more stable than, the latter. But it presupposes an amount of knowledge and international co-operation which do not seem to be vouchsafed to the world at present, nor are likely to exist in the near future. The Gold Delegation of the League of Nations in their final report (para. 78) have, after a thorough investigation, recorded their belief that 'at the present stage of world economic development, the gold standard remains the best available monetary mechanism.' The Board of the Bank for International Settlements at its twenty-third meeting in Basle on 11th July, 1932, also expressed its unanimous opinion that the gold standard 'remained the best available monetary mechanism and the one best suited to make possible the free flow of world trade and of international finance.'

Necessary Precautions. But gold is no longer stable in value in the pre-War sense; its value is affected in the modern world by a great many factors. Instability of gold prices is one of the major evils from which the world is still suffering. Before gold is allowed to form the basis of a monetary standard in future, certain precautions are necessary to ensure stable values. Some of the more important conditions which Professor Gustav Cassel regards as essential precedents to the restoration of a gold standard in the present state of the world are: a great reduction in the value of gold, a radical redistribution of the world's gold reserves, the resumption of a systematic gold economising policy, the

cancellation of all claims for reparation and war-debt payments, definite guarantees against the repetition of such extraordinary demands for gold as have occurred during the last few years and, finally, the restoration of a reasonable freedom of international trade and of international capital movements.[1]

Immediate Policy. The re-establishment of an international monetary standard must, therefore, take time. It is attendant upon the fruits of the labours of the proposed World Economic Conference following the Lausanne agreements. The immediate desire of the British Government, according to Mr. Chamberlain's statement at the Ottawa Conference (August 1932), is to see a rise in the wholesale sterling prices, and the best condition for this would be a rise in gold prices, the absence of which inevitably imposes a limitation on what can be done for sterling. While a rise cannot be effected by monetary action alone, the Currency Report of the Committee on Monetary and Financial Questions at Ottawa supports the British contention that an ample supply of short-term money at low rates may have a valuable influence.

Other parts of the Empire, including India, are recommended to act in accordance with the above policy as far as possible by the creation and maintenance, within limits of sound finance, of such conditions as will assist the revival of enterprise and trade, but favourable monetary conditions should be achieved not by inflationary measures, but by an orderly monetary policy, safeguarded to restrain the scope of violent speculative movements.[2] The recommendation deserves full support in India.

Proposed Currency Board. The exact determination of the future monetary standard for India must, of course, await further developments arising out of the forthcoming

[1] *Professor Gustav Cassel's Memorandum of Dissent, Gold Delegation Report,* 1932, p. 75.
[2] *The Times,* 13th August, 1932, p. 8.

World Economic Conference. While it seems probable that Indian monetary reconstruction would be best secured by some form of a gold standard, such rapid changes are occurring all over the world and in the realm of economic thought that it would be best at present to keep an open mind. When, however, the time is ripe for action, the mistake of thinking that what is good for the Western countries is also good for India must be avoided. The whole question should be subjected to a thorough examination on its own merits by a specially constituted Currency Board in India. Another Royal Commission or a big committee are not required; they would hardly justify the expense they would entail. The purpose in view can well be served by a small board comprising experienced representatives of Indian finance, trade and industry and one or two economists.

2. BANKING REFORM.

Monetary reform must be accompanied by banking reform, as both are essential to the development of the Indian money market, using the term in its widest sense. The evolution of the modern money market has usually been a slow process even in the most advanced countries. The English money market, for instance, is not the product of a few years or even of a few decades, it is the outcome of several centuries. India, however, need not take so long, if she can profit from foreign experience and push along the right lines with an unflinching energy and strong determination.

The previous analysis indicates that India is not altogether lacking in the elements which go to make up a sound banking system. There do exist in the country indigenous bankers, co-operative societies, commercial banks, exchange banks, savings banks, investment securities, even some bills of exchange and three stock exchanges, but they all need to be

greatly developed and well-organised. These institutions may now be taken one by one.

Indigenous Bankers. Taking indigenous banking first, as already noted, at present it consists largely of moneylending. The best progress from the banking point of view lies in the direction of the transformation of moneylenders into bankers and of both into banks.[1] Their extermination is neither desired nor desirable, but the sooner they adapt themselves to the methods of modern banking the better for them and for the country.

Co-operative Societies. There is no form of organisation better suited to provide rural credit than that of co-operative societies. 'A scheme of Government or Joint-Stock Bank finance might reduce the rates of interest, but only co-operation can teach the peasant to borrow at the right time and in the right amounts and for right ends, and to repay on the right date; and only co-operation can teach him to save so that he may not have to borrow at all.'[2]

The Banking Committee has already made valuable suggestions regarding the improvement of co-operation, which have been summarised in the preceding chapter. The co-operative staff may well be strengthened by the appointment of a Financial Adviser in each province. There is such an officer in the Punjab, and according to the report of the Punjab Co-operative Societies for the year ending 31st July, 1931 (p. 1), 'his long experience of joint-stock banking is not only of great use to the Registrar but his advice is freely sought by our central banking institutions.'

Joint-Stock Banks. The joint-stock banks are at present limited both in numbers and in resources. They have shown little evidence of either consolidation through amalgamation or of expansion through branch banking. But the banking resources of the country are largely concentrated

[1] See above, pp. 168-170. Also *Indigenous Banking in India*, 1929, pp. 229 *et seq.*

[2] *The Punjab Banking Committee Report*, 1930, p 103.

in five principal banks—viz., the Central Bank of India, the Bank of India, the Allahabad Bank, the Punjab National Bank and the Bank of Baroda. They are sometimes called the ' Big Five ' of India, after the English fashion, although they can be hardly compared in their resources to the ' Big Five ' of England. They have, however, between them, a capital and reserve of R. 6·3 crores, or nearly half of the entire capital and reserve of all the Indian joint-stock banks (with capital of R. 1 lakh or over) put together.

In a large country like India it is preferable for joint-stock banking to expand by means of new branches of existing banks rather than by more new banks. The former course has the advantage of dividing the risk of the parent bank over a number of branches, and overcoming the effects of local crises much better than would be the case with small independent institutions. The opening of new branches would, on the whole, lead to an increase in business and in prestige. In this respect the principal joint-stock banks might well emulate the example set by the Imperial Bank by opening 100 branches.

But for Indian joint-stock banks at present, consolidation is more important than expansion. The recruitment of a well-trained staff with a knowledge of local conditions is an important matter well worthy of earnest attention, and it would be a great advantage if members of indigenous banking families could be increasingly attracted to the service of modern joint-stock banks. Finally, the banks might consider the desirability of taking a hand in financing the various industries of the country.

Exchange Banks. In dealing with the future of exchange banks political considerations are sometimes allowed to come in, but they have no place in a scientific treatment of the subject. It serves no useful purpose to look askance at the exchange banks because they happen to be foreign. There is nothing particularly wrong in having branches

of foreign banks in a country. England herself has them, so have other countries. When the London offices of foreign institutions like the Deutsche Bank and Crédit Lyonnais introduced large foreign capital into England to their obvious advantage, Mr. W. F. Spalding, in an essay which he contributed to the Institute of Bankers in 1911, made the following significant observation:

'We are sure that in the banking and commercial development of our country the results will amply demonstrate that wisdom of our free banking policy, and that ultimately we shall come to see that these foreign branch banks render us an important service in the preservation of our Empire. It is certain that the more they open here the greater will be the advantages to the trade and finance of the country, internal as well as external. Still more will they serve to promote that friendly and harmonious understanding amongst other nations which follows more intimate commercial intercourse, and always fosters the spirit of peace necessary to the prosperity and wealth of the world.'[1]

At the same time it is idle to deny the need and desirability of Indian institutions developing foreign exchange business in which at present they are very deficient. There is no doubt that in existing conditions the foreign exchange banks enjoy a virtual monopoly of their business in India, and on account of their great resources and skilled and scientific management they are formidable rivals to new entrants into the field. The interests of the country do not require their extermination, but a solution must be found in which, on the lines of other countries, indigenous and foreign enterprise in India may both have a proper place. In this connexion the following remarks of the Government of India are very appropriate and indicate the direction in which a remedy must be sought.

'During the last ten years, in one branch of commerce and industry after another, the evidence has been unmistakable

[1] Quoted in *The Evolution of the Money Market* (1385-1915), by Ellis T. Powell, 1915, p. 388.

that important sections of Indian opinion desire to secure the rapid development of Indian enterprises, at the expense of what British firms have laboriously built up over a long series of years. There is nothing surprising in the fact that national consciousness should thus have found expression. Indians who desire to see the growth of Indian banking, Indian insurance, Indian merchant shipping, or Indian industries find themselves faced by the long-established British concerns whose experience and accumulated resources render them formidable competitors. In these circumstances, it may seem to them that the ground is already occupied, and that there can be no room for the growth of Indian commerce and industry until the British firms which are already in the field can be cleared out of the way. But however natural such feelings may be, they might lead, if allowed free scope, to serious injustice, and partly as a consequence of this and partly for other reasons they are fraught with grave danger to the political and economic future of India. We feel real apprehension as to the consequences which may ensue, if the present attitude of mutual suspicion and embitterment is allowed to continue and to grow worse. For this reason we regard it as of high importance that the attempt should be made now to arrive at a settlement which both parties can honourably accept.'[1]

Imperial Bank of India. With a view to determining the reforms of the Imperial Bank, a resolution was moved by Mr. T. N. Ramakrishna Reddi in the Legislative Assembly, on the 22nd September, 1931, requesting the appointment of a committee 'to inquire into the working of the Imperial Bank in all its various branches.'[2] After the recent exhaustive banking inquiry, however, a special committee to report into this question seems hardly necessary.

There is apparently no difference of opinion—both the central banking committee and the foreign experts are agreed on this point—that with the establishment of the Reserve Bank the Imperial Bank may be relieved of the

[1] *Despatch of the Government of India on Constitutional Reforms*, 1930.
[2] *Legislative Assembly of India Debates*, 22nd September, 1931, vol. v., p. 865.

restrictions and Governmental control already indicated, in order to enable it to function as an ordinary commercial bank.

A point, however, of some importance which does not appear to have arrested public attention, is the top-heavy administration of the bank. Considerable savings can be effected if, for instance, the bank has only one permanent head office instead of three as at present in Bombay, Calcutta and Madras. Which ever centre is selected, there is bound to be some opposition from vested interests in other centres, but this is a matter of public importance which should be decided by the legislature, when the constitution of the Imperial Bank Act next comes up for revision.

Savings, Investment and Stock Exchange. The development of savings and their proper investment is a matter of great importance to the country, as large savings and investments with a well-organised stock exchange form the essence of a true money market. To this end, therefore, no efforts should be spared, and it would be desirable for India to have, like England and America, investment trusts which will enable the middle-class investors to secure safe investments at fair profit.

Reserve Bank. It is now clear how the various constituents of Indian banking need to be reformed and developed, but they also need to be centralised and co-ordinated. At present the various financial units are isolated, and form in the aggregate a mere conglomeration. They must be integrated with a sense of common interest and responsibility so as to be woven into an organised whole. In other words, they want a rallying-point in the shape of a Central Bank, or what the Hilton Young Commission called the Reserve Bank, which should also manage the currency system and supervise all monetary activities. Both the Banking Inquiry Committee and the foreign experts are agreed in the view that a Reserve Bank should be constituted without avoidable delay.

In this connexion the Sub-Committee of the Round Table Conference in 1931 remarked as follows: 'We are in favour of giving to the Indian public the whole power to the extent they can manage the financial operations of the country . . . and we are of opinion that the success of the new constitution depends upon the establishment of a Central Bank which should be free from any political interference.'

Constitution of the Reserve Bank. The nature of the constitution of the Reserve Bank was not discussed by the Banking Committee, but its discussion, first by the Hilton Young Commission and later by the Indian Legislature, has been already noted in Chapter II. As pointed out by Sir Arthur McWatters in a recent paper on *Indian Finance and the Federal Plan* before the East India Association, 'the Reserve Bank Bill of 1928 will, of course, require modification. The board will now include representatives from the whole of India and not from British India only. The wider field of choice will be valuable.'

The Reserve Bank should naturally take over all the business of the Government of India, not only in India but also in England. To be more precise, it must act as a banker both to the High Commissioner and the Secretary of State for India, and relieve the Bank of England of the work which that institution does at present for the Secretary of State. Until the Reserve Bank is formed, and even after its formation, so long as it may desire, the governmental business in England may well be transacted by the London office of the Imperial Bank of India.

Bill Market. Among the most important functions of the Reserve Bank may be mentioned (1) the maintenance of the currency at par value, and (2) the control of credit and the rate of interest on short-term credit for trade and industry. As regards the second task, there is some doubt as to how far the bank will succeed in the absence of a well-developed and extensive bill market in the country. The

creation of such a market by various means already suggested (p. 184-5) is most desirable. At the same time, in accordance with the experts' advice, 'the Reserve Bank should be given the opportunity of making loans and advances on the security of movable foods, wares and merchandise, besides the warehouse warrants or warehouse receipts representing the same.'[1]

Banking Regulation. Finally, a word may be said in regard to banking regulation before turning to banking education. The proposals of the Banking Committee in the matter of banking legislation have been already set out at length. But their importance must not be exaggerated. It is quite true that 'no banking regulations can prevent unsound management, losses and failures.'[2] Banks or bankers cannot be made by a mere Act of Parliament. Careful regulations may be of assistance, but too much reliance must not be placed upon them.

Banking Education and Research. Coming to banking education, its importance is not yet fully realised, and needs to be emphasised. In the beginning of this chapter, while discussing monetary standards, mention was made of three requisites—viz., a scientific apparatus, adequate knowledge to use the apparatus and will or goodwill as driving force. They are essential as much to a monetary standard as to the complete money market. We have been discussing the ways in which the existing apparatus of the money market may be improved. But whatever improvements are devised they will accomplish nothing if the very knowledge to understand and use them is lacking. The best surgical instruments in the hands of an ignorant surgeon may easily cause more harm than good. The money market of today is a very delicate and complicated machinery which requires most careful handling. But before this can be ensured, there must be thorough preparation in the way of well-

[1] *Experts' Memorandum, Indian Banking Committee Report*, 1931, p. 652.
[2] *Ibid.*, p. 657.

planned monetary and banking education and research. The proposed Boards of Economic Inquiry in each province are, of course, steps in the right direction. But the work can be greatly supplemented by valuable contributions which teachers and students ought to make in the various colleges and universities.

Banking Statistics. But no substantial progress in our knowledge of the exact position of the money market is possible without complete and up-to-date statistics. As will appear throughout this treatise, statistics relating to banks in India are deficient in several respects. They are not only inadequate—statistics in regard to small joint-stock banks (with less capital than R. 1 lakh) and indigenous banking are non-existent—but they are also ill-arranged. For instance, annual statistics of co-operation in different provinces relate to varying months of the year instead of being on a uniform basis.[1] And all statistics are published so late—they are usually two years out of date at the time of their publication—that they lose much of the value they would otherwise possess.

In the collection and distribution of statistics America leads the way. The lot of an economic inquirer in India is no better, and perhaps much worse, than that of his compeer in England described by Professor Keynes in the following words: 'In Great Britain, on the other hand, our banks—the Bank of England and the Big Five alike—have, until recently, looked on the economic inquirer as though he were the policeman in the pantomime who warns the fellow under arrest that " every thing he says will be taken down, altered and used in evidence against him." '[2]

[1] They relate in the case of Behar and Orissa to the year ending 31st December, and in the case of Bombay and Assam to the year ending 31st March. The returns for Madras, Bengal, United Provinces, Burma, Central Provinces and Berar, Coorg and Ajmer-Marwara refer to the year ending 30th June, while those for the Punjab, Delhi and the North-West Frontier Province refer to the year ending 31st July.

[2] *A Treatise on Money*, by J. M. Keynes, 1930, vol. ii., p. 407.

For the improvement of statistics India may well follow the American lead and adopt the recommendations of Professor Burnett-Hurst, Secretary of the Indian Economic Inquiry Committee, published in his Minute of Dissent to that Committee's Report. They have already received the support of the Royal Currency Commission of 1926 and of a majority of the Provincial Governments in India.

3. INTERNATIONAL CO-OPERATION.

The preceding pages have been devoted to analysing the present apparatus of the Indian money market, to examining the various possible improvements in it, and to seeing how knowledge must be gained to devise and use new improvements. But even the best apparatus combined with perfect knowledge of its working will avail nothing if sufficient will or goodwill is not there. Mere goodwill or co-operation without a carefully devised apparatus may accomplish little, but the two together are bound to succeed where either by itself is likely to fail. And the co-operation must not be national, but international. In the modern world no country can stand isolated, the good of all is the good of each.

Just as the best monetary system for a country is one in which the money markets in different centres work as one money market of the whole country, so the best monetary mechanism for the world would be one in which the money markets of different countries would work as *one*. In other words, we should aim at a world money market and an international monetary standard. These can only be based on international confidence and goodwill. According to the Gold Delegation of the League of Nations, 'the fundamental necessity for the creation of a more effective international monetary system is the re-establishment, not so much of the technical processes of monetary interchange, as of the willingness to use these processes. The working of an

international monetary system such as the gold standard presupposes the interdependence of nations. If, however, political conditions are such that nations hesitate to commit themselves to too great interdependence one upon the other, but impose rigid restrictions upon international trade in their effort to attain economic self-sufficiency, there will be little scope foı any international monetary mechanism. We do not desire to enter into the political aspect of this problem; but we do desire to record our conviction that, without some measure of political settlement leading to renewed confidence in international economic and financial relations, there can be no secure basis for the restoration and improvement of world trade and finance.'[1]

Recent months have witnessed supreme efforts towards the attainment of international action to combat the deep economic depression which has spread all over the world. The agreements arrived at between the various European Powers in conference at Lausanne on war reparations, and the trade pacts entered into by different members of the British Empire, may not in themselves satisfy the highest expectations, but they seem to reflect a general increase of confidence on the eve of the World Economic Conference, which may possibly be held in London some time this year (1933). The exact programme of the conference is yet to be settled, but its very conception is at least significant of the intention to seek international remedies for international ills in the economic sphere.

Thus the salvation of the world from its present financial difficulties depends above anything else upon the resolute determination on the part of every country wholeheartedly to co-operate in the larger interests of all humanity.

India is on the eve of democratic government and she may make no mean contribution to world recovery and world

[1] *Report of the Gold Delegation of the Financial Committee, League of Nations, Geneva*, 1932, para. 232

prosperity. But if the first task of India is to promote international co-operation, the second is to push on her national interests and take full advantage of the improvement in world conditions which is believed to be imminent. India cannot afford to rest on her past laurels; she must go on, or she goes back.

APPENDIX I

ACT NO. IV OF 1927

[PASSED BY THE INDIAN LEGISLATURE.]

(Received the assent of the Governor General on the 26th March, 1927.)

An Act further to amend the Indian Coinage Act, 1906, *and the Indian Paper Currency Act,* 1923, *for certain purposes, and to lay upon the Governor General in Council certain obligations in regard to the purchase of gold and the sale of gold or sterling.*

WHEREAS it is expedient further to amend the Indian Coinage Act, 1906, and the Indian Paper Currency Act, 1923, for certain purposes, and to lay upon the Governor-General in Council certain obligations in regard to the purchase of gold and the sale of gold or sterling; It is hereby enacted as follows:—

1. (1) This Act may be called the Currency Act, 1927.

(2) It extends to the whole of British India, including British Baluchistan and the Sonthal Parganas.

(3) It shall come into force on the 1st day of April, 1927.

2. In the Indian Coinage Act, 1906,—

(*a*) for section 11 the following section shall be substituted, namely:—

'11. Gold coins, whether coined at His Majesty's Royal Mint or at any Mint established in pursuance of a proclamation of His Majesty as a branch of His Majesty's Royal Mint, shall not be legal tender in British India in payment or on account, but such coins shall be received at any Government currency office and, at any time after the 30th day of September, 1927, at any

Government Treasury other than a Sub-Treasury, at the bullion value of such coins calculated at the rate of 8·47512 grains troy of fine gold per rupee '; and

(6) the word 'and' at the end of clause (*d*) of sub-section (2) of section 21 and clause (*e*) of that sub-section shall be omitted.

3. In the Indian Paper Currency Act, 1923

(*a*) to section 2 after the words 'in this behalf' the following shall be added, namely:—

'and

"gold bullion" includes gold coin';

(*b*) in clause (*a*) of section 11, the words 'or in gold coin which is legal tender under the Indian Coinage Act, 1906,' shall be omitted;

(*c*) in section 13—

(i) the words 'for gold coin which is not legal tender under the Indian Coinage Act, 1906, or' shall be omitted; and

(ii) for the figures '11·30016' the figures '8·47512' shall be substituted;

(*d*) in section 18—

(i) in sub-section (4), the words 'sovereigns, half-sovereigns' and the words 'coin and' shall be omitted; and

(ii) in clause (*a*) of sub-section (8), for the figures '11·30016' the figures '8·47512' shall be substituted;

(*e*) in section 19—

(i) in sub-section (3), the words 'sovereigns, half-sovereigns' shall be omitted, and, in the *Explanation*, after the word 'sub-section,' the following words and figures shall be inserted, namely:—

gold bullion shall be reckoned at the rate of one rupee for 8·47512 grains troy of fine gold, and'; and

(ii) in sub-section (5), the words 'coin or' and the word 'coin,' where it occurs for the second time, shall be omitted.

4. Any person who offers for sale to the Governor-General in Council at the office of the Master of the Mint, Bombay, or at any other place notified in this behalf by the Governor-General in Council in the *Gazette of India*, gold in the form of bars containing not less than forty tolas of fine gold shall, subject to such conditions as the Governor-General in Council may, by notification in the *Gazette of India*, prescribe, be entitled to receive payment for the same at the rate of twenty-one rupees, three annas and ten pies per tola of fine gold.

5. (1) The Governor-General in Council shall sell, to any person who makes a demand in that behalf at the office of the Controller of the Currency, Calcutta, or of the Deputy Controller of the Currency, Bombay, and pays the purchase price in legal tender currency, gold for delivery at the Bombay Mint at the rate of twenty-one rupees, three annas and ten pies per tola of fine gold or, at the option of the Controller or the Deputy Controller, as the case may be, sterling for immediate delivery in London at an equivalent rate:

Provided that no person shall be entitled to demand an amount of gold or sterling of less value than that of 1,065 tolas of fine gold.

(2) For the purpose of determining the equivalent rate applicable to the sale of sterling under this section, twenty-one rupees, three annas and ten pies shall be deemed to be equivalent to such sum in sterling as is required to purchase one tola of fine gold in London at the rate at which the Bank of England is bound by law to give sterling in exchange for gold, after deduction therefrom of an amount representing the normal cost per tola of transferring gold bullion in bulk from Bombay to London, including interest on its value during transit.

(3) The Governor-General in Council shall, from time to time, determine the equivalent rate in accordance with the provisions of sub-section (2), and shall notify the rate so determined in the *Gazette of India*.

APPENDIX II

Ordinance No. VII. of 1931.

The following is the full text of the Ordinance to repeal the Currency Ordinance, 1931, and to regulate sale of gold or sterling under section 5 of the Currency Act, 1927:—

Whereas it is expedient to repeal the Currency Ordinance, 1931, and to resume and regulate sales of gold or sterling under section 5 of the Currency Act, 1927; It is hereby enacted as follows:—

1. *Short Title.* This Ordinance may be called the Gold and Sterling Sales Regulation Ordinance, 1931.

2. *Repeal of Ordinance VI. of* 1931. The Currency Ordinance, 1931, is hereby repealed.

3. *Restrictions on Sales of Gold or Sterling.* (1) Notwithstanding anything contained in section 5 of the Currency Act, 1927 (hereinafter referred to as 'the said section'), sales of gold or sterling under the said section—

(*a*) Shall be completed only by the Imperial Bank of India (hereinafter referred to as 'The Bank'), at its local head offices in Calcutta and Bombay;

(*b*) Shall be made only to branches in Calcutta or Bombay of banks for the time being recognised in this behalf by the Governor-General in Council;

(*c*) Shall be made for financing—

(i) normal trade requirements, excluding any requirement falling under clause (*d*);

(ii) contracts completed before the 21st September, 1931, and

(iii) reasonable personal or domestic purposes; and

(*d*) Shall not be made for—

(i) financing imports of gold or silver coin or bullion, or

(ii) liquidating the oversold exchange position of any bank in respect of any month subsequent to the month in which the demand for gold or sterling is made.

(2) Where any demand is made under the said section to the Controller of the Currency at Calcutta or to the Deputy Controller of the Currency at Bombay, it shall be forwarded forthwith to the local head office of the Bank.

4. *Power to make Rules regulating Sales.* The Governor-General in Council may, by notification in the *Gazette of India*, make rules—

(*a*) prescribing conditions as to the amounts of gold or sterling which may be sold to any recognised bank, and the procedure regulating the making of demands for gold or sterling;

(*b*) prescribing the authorities which may determine if the conditions imposed upon sales by or under this Ordinance have been satisfied;

(*c*) authorising a Managing Governor of the Bank to suspend the recognition of any bank provisionally, for a period not exceeding seven days, and regulating the exercise of such authority; and

(*d*) generally, to carry out the purposes of this Ordinance.

5. *Bar of Jurisdiction.* No suit or other proceeding shall lie in any Court in respect of anything done or in good faith intended to be done under this Ordinance or the rules made thereunder.

NOTIFICATION

No. D. 6604—F.

Simla, the 24th September, 1931.

In exercise of the powers conferred by section 4 of the Gold and Sterling Sales Regulation Ordinance, 1931 (Ord. VII. of 1931), the Governor-General in Council is pleased to make the following rules:—

1. These Rules may be called the Gold and Sterling Sales Regulation Rules, 1931.

2. An amount of gold or sterling of less value than £25,000 shall not be sold to any recognised bank.

3. Demands for gold or sterling may be made at the Local Head Offices of the Bank in Calcutta and Bombay.

4. The Secretary of the Local Board of the Bank at Calcutta or Bombay, as the case may be, shall be the authority to decide if any demand satisfies the conditions imposed by the Ordinance and those Rules; and his decision shall be final.

5. (1) A Managing Governor of the Bank may call upon any recognised bank to satisfy him—

(*a*) that it has not been selling foreign exchange for any purpose other than those specified in clause (*c*) of subsection (1) of section 3 of the Ordinance, or for any purpose specified in clause (*d*) of that subsection, and

(*b*) that it has been using all its purchases of foreign exchange before making a demand on the Bank for gold or sterling.

(2) If such Managing Governor is not so satisfied, he may suspend the recognition of the bank for a period not exceeding seven days.

(3) A Managing Governor shall make a report immediately to the Governor-General in Council of any action taken by him under this rule.

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